AMERICAN BANKERS Association JOURNAL

JANUARY 1934

ALMANACK

JAN. 1—Temporary Federal Deposit Insurance System goes into effect . . . ℂ Jan. 1—Member bank officers and directors cannot be officers, directors or managers of organizations engaged primarily in dealing in securities, except as authorized by Federal Reserve Board. Member bank correspondent connections with individuals or organizations so engaged terminated, subject to same exception . . . ℂ Jan. 1—Interlocking personnel between national banks and organizations making loans on stock or bond collateral prohibited generally, subject to Sec. 8 of the Clayton Act, authorizing the Federal Reserve Board to issue permits . . . ℂ Jan. 1—Federal corporate dividends tax repealed . . . ℂ Jan. 3—Congress convenes in regular session . . . ℂ Jan. 22—Lending power of the Reconstruction Finance Corporation ends, unless extended by Congress . . . ℂ Feb. 15—Return of Federal income tax information at source due . . . ℂ Mar. 3—Authority of Federal Reserve banks to make loans to member banks, secured by non-eligible paper, under Sec. 10 (b) of the Federal Reserve Act, terminates unless extended by President . . . ℂ Mar. 15—Federal income tax return due (unless fiscal year different from calendar year) . . . ℂ Mar. 15—Certificates of indebtedness, U. S. Treasury, $460,000,000 mature . . . ℂ Mar. 24—Authority to make loans to non-member banks by Federal Reserve banks under Act of Mar. 24, 1933, ceases . . . ℂ April 15—Treasury called upon to refinance approximately $1,000,000,000, balance of $1,875,000,000 Fourth Liberty 4½s called for redemption Oct. 15, 1933, and not taken up by exchange for new 12-year, 3¼% bonds . . . ℂ May 2—Treasury notes, Series A, 1934, $244,234,600 mature . . . ℂ June 15—Call date for $4,393,000,000 Fourth Liberty 4¼% bonds still outstanding, $535,982,000 of First Liberty 4¼% and First Liberty 3½% amounting to $1,392,227,000 . . . ℂ June 15—Certificates of indebtedness amounting to $174,905,500 mature . . . ℂ June 16—Restrictions upon the dealing by national banks in investment securities take effect . . . ℂ June 16—Dealers in securities prohibited from receiving deposits as banks . . . ℂ June 16—Private bankers, not subject to examination and regulation under state law, are required to make reports to, and be subject to examination by, Comptroller of Currency or Federal Reserve bank . . . ℂ June 16—Security affiliates must be divorced as provided in Sec. 20 of the Banking Act of 1933 . . . ℂ June 16—Hereafter no certificate representing the stock of any national bank or any state member bank shall represent the stock of any other corporation except a member bank or a corporation engaged solely in holding bank premises of such bank . . . ℂ June 16—Not less than five nor more than twenty-five directors for national or state bank member. Each must own from $1,000 to $2,500 of stock according to size of bank . . . ℂ July 1—Permanent deposit insurance system goes into effect. Federal Reserve members must qualify. Non-members in the temporary system may participate without further qualification . . . ℂ July 1—Federal capital stock tax repealed . . . ℂ Aug. 1—Treasury notes, Series B, 1934, $345,292,600 mature . . . ℂ Dec. 15—Amount due the Government of the United States from foreign governments, approximately $154,000,000 plus $465,000,000 defaulted payments and $181,867,133 and interest from Germany on army cost account.

The Condition of BANKING

THE indices reflecting the trend of business for the early part of 1934 are favorable. The sales of automobiles in 1933 have been well ahead of the previous year, and so the stock of cars is substantially depleted. For this reason automobile production in 1934 may get under way somewhat ahead of the usual seasonal upturn. Building, a key industry which has aided general business to emerge from depressions in the past, is also better and contracts are running well above last year. This improvement has been effected without much aid from the Federal Public Works Administration, which so far has spent little money. However, the revival of the heavy industries can only be sustained by the release of capital through the issuance of new securities.

The changes in the internal and external value of the dollar reflected respectively by commodity prices and by the London price of gold converted into dollars since April 17, 1933, are as follows:

	April 7, 1933	December 7, 1933	Change in per cent
Commodity price index.........	100	137	37%
London price of gold dollar......	20.67	32.13	55%

From these figures it is seen that although the gold price of the dollar has risen more than one-half, the price level of commodities at home has so far risen only somewhat over a third. This has been the experience of most countries in the early stage of currency depreciation, but in the latter stage the relation between the drop in the internal value and in the external value of money tends to change. Prices at home rise rapidly and continue to go up even after the external value has been stabilized.

The money market has been showing a tendency to harden, as may be seen in the rise in the rates on bankers' acceptances and on call money. The rise in short term money rates has been only partly due to increased demand from business. To a greater extent it has been caused by the decline in the volume of loanable funds in New York City, resulting from the decrease in excess funds. Another factor contributing to the tightening of the money market has been the rise in the yield on the short term securities of the Federal Government, which for its December 15 financing had to pay a rate of 2¼ per cent. Free funds in the money market are naturally attracted by this high return, and so other short term money rates moved up in sympathy.

December saw a change in the credit policy of the Federal Reserve banks. In order to relieve the tightening of rates in the money market, the Reserve banks resorted to the purchase not of United States Government bonds but rather of bills in the open market, and in consequence the amount of these holdings rose considerably. There was a sharp increase in the volume of money in circulation, and Federal Reserve banknotes rose to a new high record. While this increase in circulation reflects the usual seasonal rise that occurs in the holiday period and thereafter recedes, the extent of the return flow in January should be carefully watched.

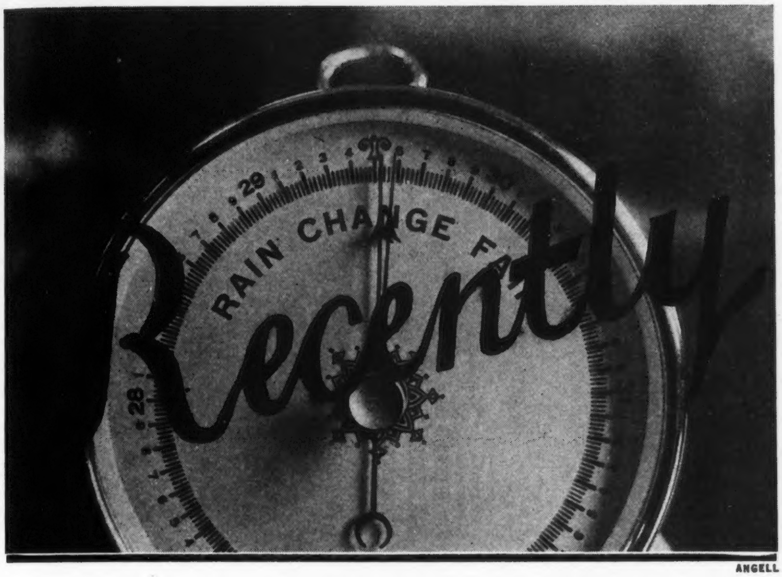
The excess reserves of all reporting member banks in the Reserve System declined. For the New York City banks these excess reserves dropped to $34 million by the middle of December. This sum amounted to less than 5 per cent of the total excess reserves of the country, although the New York City institutions hold 40 per cent of the total deposits of reporting member banks. This decline in the excess reserves of the New York banks and the unequal distribution of these excess reserves have been due in part to the operation of the Banking Act of 1933, which prohibits the payment of interest on demand deposits and so leads the interior banks to maintain small (CONTINUED ON PAGE 70)

Bonds

THE United States attracted three times as many bids as it needed when it put nearly $1,000,000,000 of one-year 2¼ per cent certificates on offer on December 15. Practically without exception, December is the month when the Treasury finds it hardest to raise the money it needs, as money tightens with the approach of the holidays and the banks are not overgenerous in their subscriptions for fear of presently having a loss on their purchases. But, even with due allowance for the seasonal difficulties which the December tax date furnished, the Treasury had to load its offering down with sweetening to be sure that buyers were found. A 2¼ per cent rate is a high one for an intrinsically sound government to have to pay for one-year money.

The reason for the steep rate is not far to seek. Though proceeding with more caution with the gold buying policy, the Administration did put at rest the fear of inflation that had been stalking the bond market ever since the buying of gold at home and abroad began. Long-dated Government issues have fluctuated in a manner more becoming a common stock than an investment deserving to be classed among the most staid and least speculative. Treasury bonds shuttled up and down the price scale from one to four points as the gold price and the dollar alternately rose and fell. Government borrowing in the long term market, which was so easy in early October, is now impossible except at prohibitive cost.

Corporate bonds have worked higher in a modest way, influenced by the statement that President Roosevelt was considering a revision of the onerous terms of the securities act. Therein lies the one hopeful prospect for the bond market at the present time.



ANGELL

Forecast

CHANGE is the only JOURNAL forecast for this year

Interest

Experts estimate that uncertainty as to our monetary future cost the Government an increase of at least ¼ of 1 per cent in the interest rate on the December 15 financing. On the $950,000,000 put out this means an additional $2,375,000 in the year's interest. The loan may be cheap at that.

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Maturities

Including the hangover of the Fourth Liberty issue called for redemption next April, the Government in Washington faces maturities of bonds, Treasury notes and Treasury certificates in 1934 in the amount of $3,250,000,000 in round numbers. In addition it faces the usual 90-day turnover of nearly a billion and a quarter dollars in Treasury bills. Above all, it faces new issues estimated at around 2 billion for recovery purposes. All this will demand something more than clever financing; it will demand sound currency and an optimistic outlook.

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KEYSTONE

Francis Marion Law, President of the American Bankers Association, said recently to the New York Chapter of the American Institute of Banking: "I firmly believe that Mr. Roosevelt, with his conservative background and record and with his knowledge of history and economics, would have the same abhorrence and fear with regard to the issue of fiat money that the most ardent member of the sound money group would have"

Coordination

All the credit agencies of the Government have been coordinated as a result of the efforts of Henry Bruere; the Government's relief agencies are being coordinated under the new National Emergency Council; the R.F.C. has been coordinated with about everything in the Government; but there has been no coordination between the N.R.A., the A.A.A. and the Government's monetary policy because they are rather antithetical. It will take a smart man to raise the price level without running the risk of a buyers' strike.

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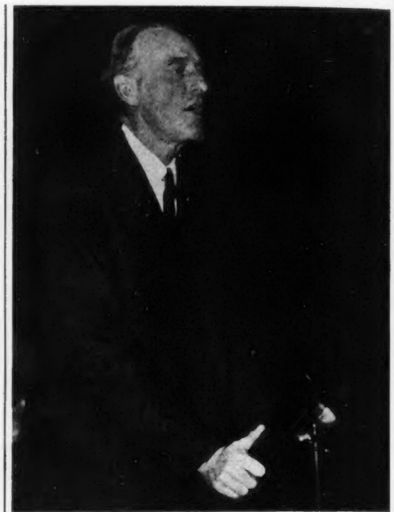
Dossiers

Some of the "dossiers" of single projects considered by the Public



KEYSTONE

Joseph H. Choate, Jr., chairman of the Federal Alcohol Control Administration, advocates a liquor tax of between $2 and $3 a gallon

Works Administration are over a foot thick—plans, specifications, blue prints, recommendations, maps, legal opinions, copies of state laws and city ordinances, engineers' reports, correspondence, protests, resolutions, appeals, almost anything one can imagine. The job of allotting the $3,300,000,000 has been a tremendous one. The indications are that it has been well done.

Taxes

The incidence of taxes on the liquor traffic relieves the country from some of the so-called "nuisance" taxes, including a 5 per cent dividend tax, a tax of a dollar a thousand on capital stock of corporations, a tax of 5 per cent on corporation profits in excess of 12.5 per cent of capital stock and a half cent a gallon on gasoline. It is unlikely, however, that any other taxes will be cut, while some may be increased. The chief tax task of Congress is to plug up some of the holes in the income tax law so as to prevent evasions like those brought to light in Senate committee hearings in Washington. Eventually there must be an increase in taxes. Tremendous Government borrowing cannot be carried in any other way.

Gold

France has been experiencing the same loss of gold which forced Great Britain off the gold standard and which drew enormous sums from the United States in the fall of 1931, in the spring

KEYSTONE

Governor John G. Winant of New Hampshire, speaking before the National Consumers' League in New York, advocated enactment of state laws which would perpetuate the minimum wage, maximum hour and child labor provisions of the National Industrial Recovery Act

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of 1932 and again in the spring of 1933. These tremendous gold movements represent efforts of international capital to find either a profitable market or a refuge from disaster. President Hoover once likened them to great guns which have broken loose from their emplacements and are careening from side to side of a ship in a storm. President Roosevelt says that they put the value of the dollar too much in foreign control. Undoubtedly they are demoralizing in their influence upon world moneys and world business conditions, but perhaps the real trouble lies in the conditions which lead to such movements of capital.

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Russia

One thing can be said of new relations between the United States and Russia, and that is that these relations have been established from a strictly realistic standpoint. The agreement reached is altogether objective and practical without a particle of sentimentality. When it comes to later arrangements for trade and credits there will be more realism and probably considerable disappointment all around.

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R.F.C.

When Congress orders the R.F.C. to distribute $500,000,000 among the states in direct unemployment relief it increases the (CONTINUED ON PAGE 72)

AMERICAN BANKERS
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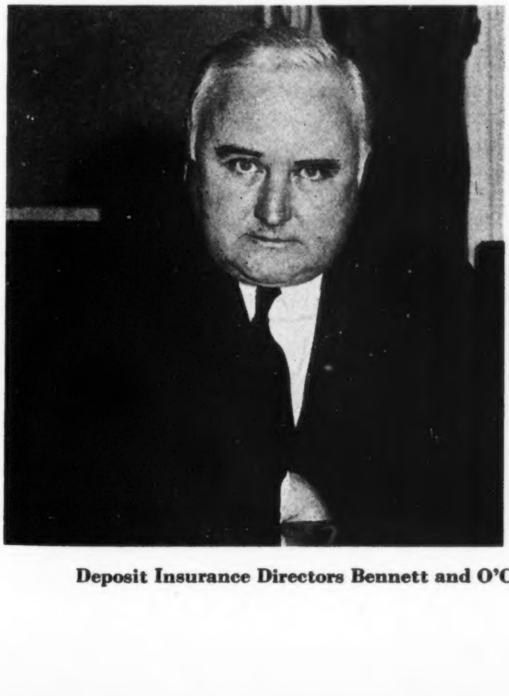
The New Era in Banking

Out of the Emergency Stage into a Period of New Conditions Arising from Permanent Legislation

By GEORGE E. ANDERSON

"PSYCHOLOGY", as a business term, has come to be almost as badly overworked as was the term "service" in the days of the business boom; and perhaps with no better reason. Nevertheless, no evaluation of the banking and business prospects in the United States at the beginning of the new year is possible without recognition of a changing mental and moral reaction to the situation. There is still fear of the unknown, and this gives rise to uncertainty which stifles initiative and long term planning. There is still serious opposition to some of the principal policies of the Government, particularly in monetary matters, and agitation against inflation is approaching the explosion point. The political and financial outlook in Europe is serious. Unfavorable long term credit conditions in the United States itself are a restraining influence upon the heavy industries which embrace nearly two-thirds of the industrial activity of the country. International financial conditions are threatening with more currency upheavals and killing competition in the international trade in prospect. The matter of intergovernmental debts remains unsettled, aggravated rather than mitigated by so-called "token" payments by some nations and frank repudiation by others. Clearly the nation is not yet out of the woods.

On the other hand, there is a growing spirit of confidence in the future. Whatever the cause or however costly the means, unemployment has been reduced, wages and buying power are more evenly distributed, the high and low patches in business are gradually being ironed out, year-end dividends are better than they have been for two years, prices have advanced 17 per cent since April and are steadier, and



HARRIS AND EWING PHOTOS

Deposit Insurance Directors Bennett and O'Connor. A picture of Walter J. Cummings appears on Page 30

Carefully Planned Public Works

Written for the JOURNAL by
HAROLD L. ICKES, Public Works Administrator

LET no one entertain the idea that in practically completing the allotment of the $3,300,000,000 appropriated by Congress for its purposes the Public Works Administration has been scattering public funds helter-skelter without adequate return. Most of the money has been allotted for Federal undertakings long ago planned and insistently demanded. The rest goes to state governments or municipal or other corporations in the way of loans which are to be repaid, supplemented in some cases by grants to stimulate immediate employment. Every expenditure authorized, in the way of either Federal undertakings, loans or grants, has been upon an enterprise proved by careful investigation to be practical, useful and socially beneficial. These enterprises are not only putting men to work and "priming the industrial pump," especially in the heavy industries which constitute over 60 per cent of the nation's industrial activities, but they also give communities in every state in the Union needed facilities in the way of waterworks, power and light plants, low cost housing, slum clearance, sewers, hospitals, streets, bridges, schools and other improvements which are highly desirable, in many cases absolute necessities without regard to the recovery program, and many of them are self-liquidating. The effects of the public works program is already felt and the force will be increased in the next few months when actual construction in all of these enterprises reaches a maximum.

It means employment for hundreds of thousands of workers in all lines of industry and will be one of the most potent factors for recovery.

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there is a general expectancy of business pick-up after the turn of the year, which in itself will do much toward accomplishing that desirable end. It is not easy to strike a general balance under such circumstances; perhaps it is unwise to attempt to do so. Yet as the various items which enter into such a balance are examined one by one there gradually appears a rather fair picture of the situation—a picture with lights and shadows but with the lights predominating.

What is true of the general business situation is certainly true of the country's banks. There has been a revolution in American banking in the past year which is still in progress and will be largely completed within the next few months. Banks, as well as the country generally, are now wedded to systems and circumstances which would have been unbelievable three years ago. In the course of this revolution the country is dropping between three and four thousand banks from its muster roll. That is a serious state of things, but it is well to realize that those which remain are stronger and better banks. Money returning from hoards indicates that the banks are regaining public confidence. The banks themselves show more vigor, more confidence in the future. They act more like they had something to live for.

Some of the reasons for this change are apparent. First, perhaps, is the psychological factor above referred to, the innate resilience of American character faced with difficulties. Then, too, a common sense evaluation of facts gives reason for more optimism. The mere fact that a bank could survive the crisis of last March has in itself added tremendously to its standing with the public and with itself. The Banking Act of 1933 has done much to restore public confidence. Perhaps this, too, is largely psychological, but there can be little doubt that its many provisions designed to correct many abuses in the use of credit based upon depositors' funds, vaguely felt in the past and only too clearly demonstrated in recent public hearings, have had an important influence. The prospective insurance of bank deposits, for a time at least, has added much to this confidence in several parts of the country. Among bankers themselves the new banking Code has become an inspiration. It has enabled them to correct many evils and establish policies against which and for which they have fought for a generation. The facts, the realities, which attend the revolution in banking, accordingly, have few terrors and much of encouragement.

First among the facts to be faced, chronologically and perhaps economically, is the temporary phase of the insurance of bank deposits. No one is likely to claim that the deposit insurance scheme is popular among bankers. The plan, both in its temporary and permanent phases, was adopted over their protests. Save for a few groups in several parts of the country where banks had lost almost all public confidence, it has been consistently opposed and, in its permanent features, is still opposed. However, a fact is a fact and the temporary phase of the insurance scheme is one of them. Facing this fact, the present disposition of most bankers is to cooperate unreservedly with the Government in giving the new system a trial. Up to last accounts, over 84 per cent of the non-member state banks had applied for membership in the temporary fund and 83 per cent of these applicants had passed the Government's examination. Perhaps it should be noted, however, that some of the banks slow in applying for membership are among the strongest.

Nor is actual inauguration of the new system altogether without its favorable aspects. The plan fully insures the deposits of 96.5 per cent of all bank depositors in the country. If that fact will not restore the confidence of 96.5 per cent of bank depositors in their banks nothing will. Hence it is only reasonable to anticipate that at least a large portion of the billion or so dollars still hoarded by the people will find its way back to the banks, which, indeed, weekly Federal Reserve reports indicate is already happening. Since the law now provides that collateral security for postal savings (CONTINUED ON PAGE 60)

Reconstruction

First, Systematize Banking

Central Control — By A. A. BERLE, JR.,

a vigorous member of President Roosevelt's official family, who feels that American resurgence will be better served by a unified banking system

THE problem of banking reform is once more to the fore; and it ought to be. The current of recent discussion on this point is worth a brief moment of review.

During the last two years of the Hoover administration, Senator Glass had striven manfully for reform of the Banking Act. Dying in the last Hoover Congress, his bill was re-introduced in the special session of Congress following the bank holiday.

GLOBE

MR. GLASS

The opinions of Senator Glass regarding bank legislation are most important in forecasting Congressional action

The bank holiday itself made necessary certain emergency bank legislation as a prerequisite to opening the banks then closed. A well informed body of opinion desired both then and during the few days following the bank opening to make a thoroughgoing revision of the banking laws, but failed to do so at least partly because of the sheer pressure of work, and because banking legislation takes an infinite amount of time, care and technical drafting work. Meanwhile, Senator Glass's original bill moved steadily forward, mangled in transmission. It collided with a movement which had been gathering headway for a couple of years, in favor of Federal guaranty of bank deposits, supported largely in the House. Mr. Glass was dead against this, and, I think, rightly; President Roosevelt likewise evinced no enthusiasm for Federal guaranty. In the hurried closing days of the special session, Senator Glass's bill, embodying deep reforms, and Mr. Steagall's bill, embodying bank guaranty, met head-on in conference. The result was probably a small portion of what Mr. Glass really wanted, and only a half portion of what he had asked for in his original bill, accompanied by the hybrid deposit insurance guaranty, which was the political compromise between Federal guaranty and no guaranty at all.

At this point, the Administration stepped in, as it had to under the law. The deposit insurance feature meant, in substance, that the losses of the weak banks would be absorbed partly by some Government-subscribed capital, to a small amount, and mainly by the resources of the large and solvent banks, in the event of trouble. To minimize this possibility Mr. Jesse Jones of the Reconstruction Finance Corporation, Governor Eugene Black of the Federal Reserve Board and Mr. Walter Cummings of the Deposit Insurance Corporation—three of the ablest men in Washington, by the way—evolved the plan of providing additional capital for banks through purchase of stock or notes by the Reconstruction Finance Corporation. This would result in repairing the somewhat weakened capital structure of banks in general; the primary purpose was to increase credit facilities and the secondary purpose was to put an additional "cushion" between the bank depositor and the deposit insurance pool. The amount of this additional capital is likely to run large —my own estimate would be about \$600,000,000. Of course, it contributes additional safety, since before there is any heavy draft on the deposit insurance fund not only must the deposits themselves be lost, but the bank capital, including this additional capital provided by the Federal Government, must be wiped out; and only after that does

the deposit insurance liability come into operation for the benefit of depositors.

Obviously, these last steps are in the nature of emergency or transition measures taken to deal with a situation that exists. They do not, however, deal with the fundamentals of the matter. They redistribute possible losses under the present system, first, by apportioning them to the taxpayer in respect of the capital subscribed by the United States Government, and second, by spreading them out over the whole banking system, through the deposit insurance fund. This meets the situation at the moment. But it does not tackle the fundamental job of eliminating the causes of loss in the first place.

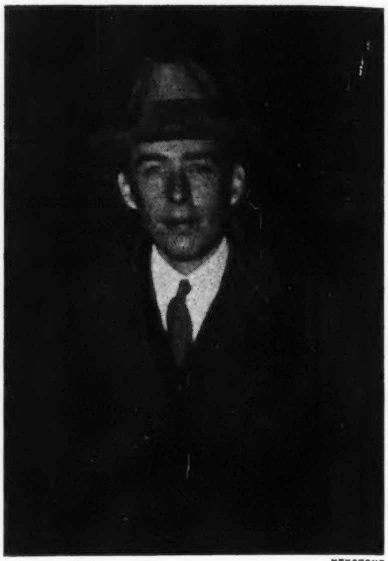
Some of these fundamental causes have been pretty well agreed on by almost everyone who has thoroughly studied the question. They are, indeed, hardly matters of dispute, though the resulting conclusions are vigorously opposed by certain interested groups.

First, we need a single system. In the nature of things, it has to be Federal. Realistically, this means a single Federal Reserve System, if not a single system of national banks. And why in the world an outraged public does not arise and demand it, is difficult to see. The bank holiday (with a few conspicuous exceptions) showed an amazingly better record for the Federal Reserve banks than it did for the non-member banks, and it is not easy to find any real room for argument.

Second, there are too many banks, and too many of these are weak, undermanned, under-capitalized and operating in too small an area to give the diversity necessary for safety. Even with our present absurd system we have perhaps 15,000 banks in a period of safety. Under stress of good times, this will expand to perhaps 24,000. When the good times begin to fade, somewhere between six and nine thousand banks will fail, and we get back to our minimum. If they fail too fast, confidence in the entire banking system is impaired, and it blows up. Again it is difficult to see just why previous Congresses should feel that they must defend to the death the right of several thousand banks to open up and to fail, with corresponding wreckage, misery and general upsetting of the economic structure. Inconceivable as it may seem, however, this is exactly what has happened. Communities by the thousands apparently preferred to lose a fair proportion of their deposits on an average of once every eight or ten years, and go through a brutal period of economic misery following such failure, rather than abandon the idea that anyone who wanted to be a banker and had a little influence at the state capitol, could go into the business. A new crop seems to emerge in every prosperous time and to go under in every period of depression.

Third, commercial banks are combining functions which really ought not be. Specifically, they do four things.

Mr. Berle



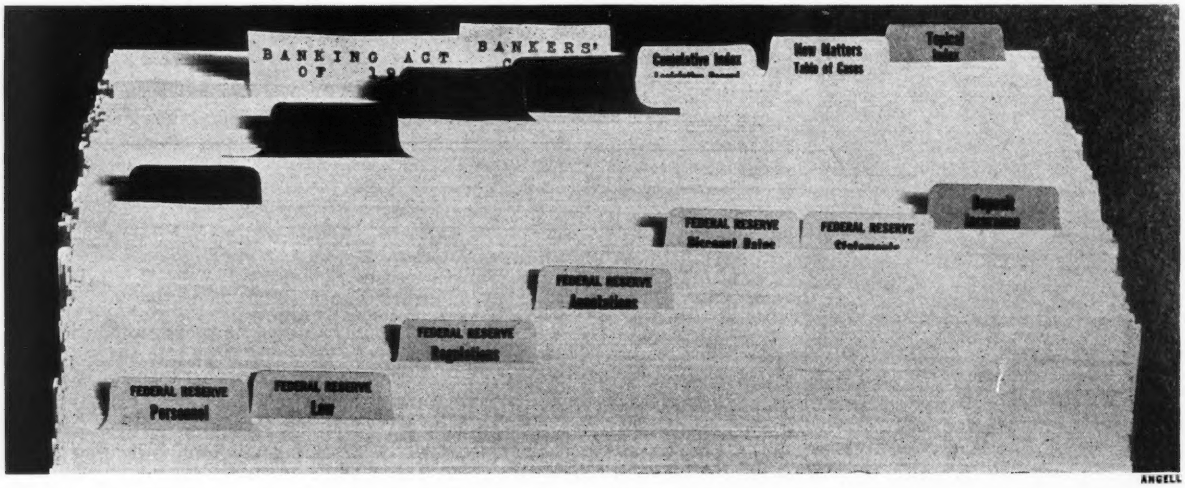
KEYSTONE

They run a trust business—which has no connection with banking, except that it can be usefully combined with the bank overhead. This is perhaps not important if the trust business is carefully segregated.

They also do a savings bank business. Now, savings bank money is not the same as commercial bank money. It does not go to the same place—or more accurately, it ought not to. It should take care of the long term credit needs of the country—mortgages, government bonds, sound long term bonds. The theory of a savings bank is not that a depositor comes around and gets his money out, but that he keeps it there, drawing it only in periods of emergency, or in small amounts as he may need it. It is true that savings bank deposits are by custom demand deposits, in flat violation of (CONTINUED ON PAGE 52)

FEDERAL BANKING LEGISLATION

Banking legislation began with the first Congress and continues without abatement. This has led some to ask whether the solution to banking's problems lies in the direction of more legislation or of less.



ANGELL

Reconstruction

First, Galvanize Banking

Individual Initiative

By L. A. ANDREW, Des Moines banker, former Iowa state banking commissioner and former President of the State Bank Division, American Bankers Association, who believes that a highly centralized banking system would be harmful

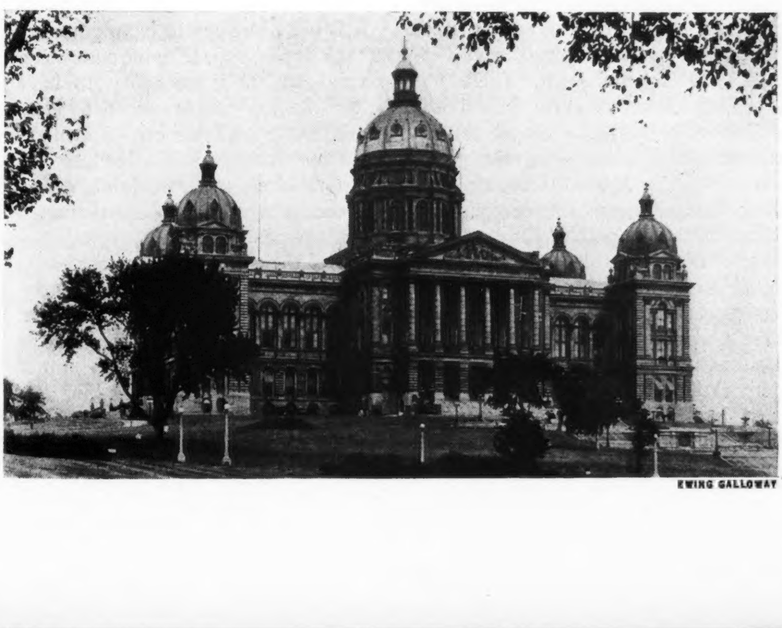
IT can be truly said that state bankers are somewhat bewildered by the rush of events in Washington, but probably not any more so than national bankers. However, the large majority of national banks seem to be assured of at least a continued existence, while a very large number of state banks, particularly the smaller units, are not even sure of their right to continue in business.

Banks operating under a state charter are nearly all, however, anxious to adjust themselves to the Administration policy, particularly as it concerns better and safer banks, provided, of course, that the hurried plans now being considered and those also being put into effect treat them fairly. The reasoning expressed some time ago that it was necessary to have "bigness in banking" in order to have safety has been proved again to be unsound in recent Washington hearings. Group banking and branch banking have also seen exploded many unsound theories along that line.

A well conducted unit bank under state supervision has a right to exist and should be protected in every way in any new deal concerning banking regulations. One point which should be emphasized in regard to changes in our banking system is that while banks are primarily business institutions for profit, they are built almost entirely upon the confidence that their customers have in the management. Good state banks are not built in a day, and no banking system can be revolutionized overnight.

All major changes should be very carefully studied by a commission made up of men who have made a success of the intricate and hazardous business of banking. A good state banker always welcomes changes that will improve his bank, but he is fearful of revolutionary changes made without due consideration and of those which will imperil the safety of his institution, carrying along with it, in many cases, the hard work, thrift and good management of several generations. Good management is the primary requisite for good banking, and this kind of management cannot be put into our banking system by legislation.

It is for this and many other reasons that a careful state banker is fearful of the guaranty of deposits. He knows from experience in eight different states that it has a tendency to penalize good banking and to put the careless banker on common ground with his efficient brother in the business. It also gives the good banker a continuous and, perhaps,



EWING GALLOWAY

STATE LEGISLATION

In 48 states the development of a banking system has coincided with the economic growth of each commonwealth. Left, the Iowa capitol, at Des Moines

HARRIS & EWING

FDIC BOARD ROOM

The Board room of the Federal Deposit Insurance Corporation on the 5th floor of the National Press Building. At the far end of the long table is a picture of a field of grain in harvest time

an increasing liability without limit. The guaranty of deposits, carrying with it the examination and approval by the insurance corporation, has put an added burden and anxiety on the state bankers of the country. Those familiar with the requirements of a careful examination have wondered for some time as to the ability of the insurance corporation to conduct proper examinations in the time allowed. It is unfortunate but true that politically controlled bank examinations are far from satisfactory. However, reports have come in from many sections that efforts to be fair are evident. It is now a question of ability to carry the examinations along with an inexperienced, political force and at the same time do full justice to all classes of banks.

State bankers feel that the ruling exempting national banks and Federal Reserve member banks from examination by the insurance corporation is hardly fair, since they know that a number of these exempted banks are in much worse condition than many state banks that are being forced to undergo the required examination. This action will undoubtedly put into the insurance corporation a number of banks whose condition may make trouble in the future. It is well to remember in this regard that the crisis in American banking, which culminated in the President's proclamation of March 4, was primarily caused by the poor banking methods in several large banks, about which had been built groups of branch banks, and, finally, a complete lack of confidence in large reserve banks, resulting in the failure of the Government's own fiscal agents, the Federal Reserve banks, to carry on their normal functions. The large number of failures of small state banks is to be regretted, but no one who has studied the situation will take the position that these failures of small state unit banks were the primary cause of the banking collapse.

The state banks who are admitted to the insurance corporation for the guaranty of their deposits—and it is apparent that a very large percentage will be able so to qualify—are then faced with the problem of their future existence. A determined effort is continually being made to force all of the banks in the country into one system. The Federal Reserve has been selected by the proponents of this plan as the agency to complete the deal and, according to the present law, all members wishing to continue in the insurance corporation must be members of the Federal Reserve System by July 1, 1936.

In connection with these requirements, of course, the activities of the Reconstruction Finance Corporation are being extended to offer aid to all banks that may require a recapitalization or an advance in the form of capital debentures. The effort to have all of the banks in the country offer preferred stock to the Reconstruction Finance Corporation has proved unsatisfactory for the reason that the large majority of banks have been so liquid that no further cash is required, and losses have been taken out of surplus earnings instead of recapitalization. There has been such a decrease in earnings that it is impossible to make proper returns on the capital already invested. Preferred stock or capital debentures, in their final analysis, are, of course, a form of "bills payable," and a large number of good bankers feel that it is unfair to their institutions to borrow money except when it is necessary to have a more liquid position to pay depositors. The Reconstruction Finance Corporation has been of great help to many banks in this position.

Many state bankers hope that the guaranty law will be so amended that it will stop with the guaranty of deposits of $2,500 and under, and not require Federal Reserve membership. Also, that a limit will be set as to the liability of each bank, any balance necessary to come from public funds. Obviously, the careful, thoughtful banker is firmly of the opinion that if there is to be any guaranty of bank deposits, the ones receiving the insurance should pay the cost. Nearly all bankers, of course, are opposed to the guaranty idea. It is the result of the hysteria coming out of the great economic depression.

It is not necessary to have guaranty of bank deposits to make the customers' money safe. It is necessary to have better banks, which means better management, and this can be brought about by a change in the banking law and some of the fundamentals of banking practice which have been perverted during the past generation.

One of the main causes of poor banking has been the use of the bank's investments by officers for their own profit. This has had many devious complications, as is well known. Another important cause of weak banking has been the mixture of commercial and investment banking in the same institution, the (CONTINUED ON PAGE 53)

Reporting Progress

Farms

A statement for the JOURNAL
by HENRY A. WALLACE,
Secretary of Agriculture

NOT the least accomplishment of the nation in its struggle with the farm problem is the fact that it has been brought face to face with realities. The problem is now recognized as being not merely a phase of general depression but as a fundamental problem of our national life demanding a permanent solution.

Since March 4 our specific problem has been to increase the purchasing power of the farmer as rapidly as possible without creating an untenable supply and demand situation which would cause grief to the nation later on. Before 1929 this country normally exported more than one-half her cotton, one-third of her lard, 40 per cent of her tobacco and about one-fifth of her wheat. From 35 to 50 million acres of crop have been producing stuff which normally finds its market overseas. A large part of this overseas market seems to be lost forever. This fact was hidden from most of the people up until 1929, because we loaned to foreign nations from half a billion to a billion dollars annually. In effect we loaned Europe the money with which to buy our goods.

We have gone some distance, since March, in fitting our production schedule to the needs of all our own people, plus what we can sell abroad. We shall have to go much farther during 1934 to obtain a balance between supply and demand. Meanwhile, higher prices for farm products and benefit payments to growers who cooperate in adjusting their production have boosted farm income. For the nation as a whole, farm income was 44 per cent higher this past October than in October, 1932.

But the truly fundamental thing is not the millions of dollars in checks sent out, but the better adjustment of production to the changed world picture. It is vicious to subsidize any class, even as a compensation for injustice, unless the subsidy results in such a change of productive forces that the entire nation is better adjusted to the world situation. That is why I have talked again and again to the farmers of the cotton South, the wheat West, and the corn and hog belt of the fundamentals which have to do with the creditor position of the United States and our tariff policy. If they understand that we are in the midst of a tremendous inevitable shift in productive forces, and that the nation is not handing out money to them as a bribe but as a means of enabling them to make the shifts with the least trouble possible, then I am hopeful that we can develop a feeling of intelligent, national consciousness such as we have never had before. It will be a genuine advance if the farmers can feel that they are a part of the Government and that the Government is a part of them; that we are all pulling together to realize an objective which is good for the farmers, good for the nation, and good for the world as a whole.

Factories

A Statement for the JOURNAL by
HUGH S. JOHNSON, Administrator,
National Industrial Recovery Act

SOME people have called the National Recovery Act revolutionary. I have neither time nor desire to quarrel with them. Nothing is to be gained by an exchange of epithets.

The old ship of industry has been floundering about in a sea of depression for three or four years and has listed badly. We are seeking to restore her balance; to set her up on an even keel. In order to do so it has been necessary to jettison some of her cargo in the form of obsolete and antiquated business practices, to the end that she may not only weather the present storm but be able to outsail any future disturbances.

We are balancing production, we are balancing distribution and, so far as possible, balancing consumption. We are doing so by methods which have come to be well known, by eliminating unfair trade practices, establishing minimum wages, shortening the hours of labor and increasing purchasing power among the masses.

If the doing of these things—and in the doing of them we have accomplished the reemployment of upwards of 4,000,000 idle workers—the elimination of the sweatshop and the abolition of the atrocity of child labor be revolutionary, then the whole progress of civilization is revolution.

Of approximately 150 codes representing the leading industries and trades of the country, which have been approved by the President up to this time, the average period that they have been in effect is less than six weeks; yet their results have been highly satisfactory to industry, to the Government and to the public in general. Their reports in almost every instance give warrant for that statement. From this time forward, we shall have more reports of similar nature as industry after industry adjusts itself to the conditions which, under the codes, it imposes upon itself with the approval of the President.

In Bold Relief

The

By DR. WALTER E. SPAHR

The author is professor of economics and chairman of the department, School of Commerce, New York University

THE various phases of the monetary controversy have reached a sufficiently advanced stage to justify a summary statement and appraisal of the principal issues in dispute. Although summarization involves the sacrifice of argument and explanation and gives a tone of undue dogmatism to one's statements, it nevertheless seems quite worthwhile at this particular time and place to present the chief issues of the monetary controversy.

1. The inflationists and devaluationists, who are dominating the Government's monetary policy, contend that the best, or proper, or only way to raise a country out of a depression is to inflate or devaluate our currency. This contention rests upon unsound premises. Business recovers from a depression in a normal manner when inventories are exhausted and costs are reduced below selling prices. The initial impetus comes from producers, and there is nothing that consumers can do to generate a recovery or a rising price level.

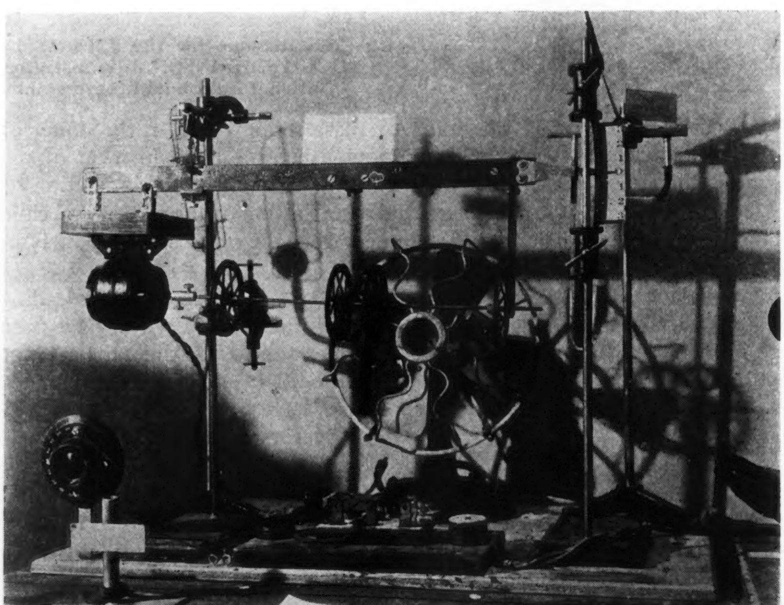
There is no known way to increase consumer purchasing power except through an increase in employment, wages and salaries; and aside from what the Government may provide directly, this increase in purchasing power must come from the activities of producers. When inventories are exhausted, producers start their wheels turning to fill the orders which are still coming through in a persistent, though declining, volume. This renewed activity provides additional employment and increases the purchasing power of consumers. These employees receive payment at once for producing goods which will not reach the market until later, and the money received is spent for a declining volume of goods produced in the past. This means a relative increase in demand as against the available supply of goods, and this turns the flywheel of business off center and starts business on the road to recovery in a cumulative manner.

Any program which assumes that a sound recovery can be generated in any other manner is unsound. The question of inducing such a recovery is not one affecting the currency, and it is for this reason that the assumption that currency tinkering is the proper way to revive business has no justification in economics.

2. The related assumption of inflationists and devaluationists that there is some way by which additional money and purchasing power can be put into the hands of consumers directly, except in so far as the Government employs people, also rests upon unsound ground. Money and credit flow into circulation as business increases and contract when business contracts. And practically all currency reaches consumers through the intermediary of the producers. When inflationists and devaluationists assume that there is some means by which they can put additional currency in the hands of consumers directly, one scrutinizes their arguments in vain for an explanation as to how this is to be accomplished.

3. Inflationists and devaluationists fail to understand that what they advocate is an *unsound* rise in the price level, and that the alternative is a *sound* business recovery and a *sound* rise in the price level. Many of them

In theory a plan may be perfect, yet encounter difficulties in operation. The rational reactions of human beings to inflationary and deflationary programs make control impossible



ANGELL

Mistakes of Inflaters

assume that we must support their particular brand of rising prices or face national bankruptcy. Their trouble usually lies in the fact that they have no adequate or correct appreciation of the nature of inflation. Most of them subscribe to Professor Warren's statement that "the effect of a rising price level is the same regardless of cause."

Every thoughtful person should know that when a price level rises as a result of currency inflation, the rise is due to the reluctance of sellers to sell except at the prices which they think will prevail when they must replace their stock of goods, and to the anxiety of buyers to buy in an effort to protect their incomes in every way possible from the despoiling effects of inflation. Buyers increase their purchases because of *fear* and not because of confidence nor because their purchasing power has been increased appreciably. This reaction to rising prices tends to exhaust their incomes rapidly, and sends them headlong on the road to poverty, distress and disaster.

A sound recovery, on the contrary, is generated by increased consumer purchasing based upon an enlarged purchasing power, which, in turn, rests upon the renewed activities of producers. Buying rests upon confidence, not fear; and the price level rises because of the increased buying based upon confidence. Such a rise in the price level is sound, and it is the only kind which need not, of necessity, culminate in liquidation and disasters. A rise in the price level caused by currency inflation invariably leads to disasters. To oppose inflation, therefore, does not mean that one cannot advocate a *sound* rise in the price level based upon a sound business recovery. To recommend currency inflation as a means of inducing recovery is tantamount to recommending further disasters, for the reason that inflation, by its very nature, carries within itself the seeds of disaster.

BROWN BROS.

Whenever the medicine salesman came to town he aroused hope and expectancy

4. The assumption of inflationists and devaluationists that there is a scarcity of money is false. On December 6 we held $4,323,000,000 of gold with the price level at 72 on the basis of 1926 as 100, whereas in May, 1920, when the price level was 163 on the basis of 1926 as 100, we held only $2,856,000,000 of gold. The problem is to induce activity among producers; and when they renew their activities, the necessary money and credit will flow into circulation. Considering our present holdings of gold, we could have a price level far higher than any we have ever had in our history. On this score, therefore, the arguments for inflation and devaluation are fallacious, and tinkering with the currency merely fills business men with a feeling of uncertainty and insecurity and delays business recovery.

5. The related assumption that there is some *sound* way to force additional currency into circulation and keep it there also is false. In the spring months of 1932 the Federal Reserve banks purchased $1,100,000,000 worth of Government securities in the open market in an effort to force additional currency into the market, to stimulate buying, and to raise the price level. But the policy was ineffective. Currency will flow into circulation and remain there when business activity increases; and the theory that an increased supply of currency induces recovery is merely a case of placing the cart before the horse. Inflation or the fear of inflation, of course, will raise prices; but, as already pointed out, this is an unsound procedure and leads to disasters.

6. The assumption that a devaluation of the currency is desirable or was, at the outset, necessary is groundless. Our gold supply is excessive if we compare it with preceding periods, therefore the trouble cannot lie there. But when (CONTINUED ON PAGE 50)

Deposit Insurance, First Phase

Including an Interview with Mr. Walter J. Cummings, on the Groundwork of the Federal Deposit Insurance Corporation

Washington, D. C.

THE Federal Deposit Insurance Corporation commences business on January 2, 1934, with a muffled report rather than the resounding éclat anticipated. Whatever expectation there has been that it could be inaugurated as a clearly cut organization has been merged into a struggle to save banks. The dead line which was originally set for December 15 has been moved forward into the rather indistinct region of practical possibilities. With this shifting of lines has come a shifting of plans if not of policies. A list of banks which have qualified for membership in the fund will be published by the Corporation on the first business day of the New Year, but with that list will be an announcement that the list is not final and that it will be added to as other banks come into the insurance system.

"No bank has been finally rejected," Walter J. Cummings, Chairman of the Board, tells the JOURNAL. "We are making it possible for every bank, not in a hopeless condition, to qualify for the insurance fund. It will be impossible for some time after the New Year to give final figures, for the final rush for membership in the fund has been so great that it will be some time before late applicants can be examined and their qualifications passed upon.

"Another thing," continued the Chairman of the Board, "we do not intend to allow banks to enter the system which are going to fail. We are not going to permit them to fail. Banks whose assets are sufficient to cover their deposit liability are insurable under the law. We intend to have more than that. They must be sound. What all this agitation about preferred stock in non-member banks is about is that banks whose capital has been impaired or which are otherwise in a weakened condition shall receive enough new capital from the R.F.C. to make them absolutely sound; and they will be kept sound."

He added, with some significance:

"Banks which are members of the Federal Reserve, of course, enter the system automatically. We have to assume, for the purposes of the temporary insurance fund, that they are qualified. When it comes to the permanent system that will be a different matter."

UP TO NOW

THE situation of the deposit insurance enterprise as it opens for business can best be understood by a review of the course of its organization and especially the activities of the authorities in the last two weeks of the old year. When the organization of the temporary fund was inaugurated around the first of September the Corporation sent application blanks to 10,704 non-member banks of all kinds, including mutual savings and Morris Plan banks. Of the latter, only 126 were eligible under the law and the rest were thus eliminated. The 10,704 banks also included 1,529 state non-member banks operating under restrictions—in other words in the hands of conservators. These banks also were practically eliminated. Between the Deposit Insurance Board's call and the middle of December 152 non-member banks went into receivership.

Eliminating all institutions not really eligible there were some 8,627 banks, or thereabouts, which, it was considered, ought to be in the system. Up to December 15, the first dead line date, 7,520 of these banks had applied for membership and 7,204 had been examined on behalf of the Corporation. The examination had disclosed that on an average 83 per cent of the banks were eligible, 5 per cent doubtful and 12 per cent ineligible in their present condition. The situation then was, roughly, that about 1,100 banks had not applied for membership, 900 banks were ineligible and 375 in a doubtful position. Something had to be done about the situation and something was done.

Thereupon ensued an intensive campaign, the like of which has never been seen in the banking annals of the United States. Every effort was made by letter, telegraph, telephone and personal interview to induce all banks to apply for membership in the system and to enable all of them to qualify. Whenever the position of a bank was shown to be doubtful its situation was immediately put before the committee of the R.F.C. having the matter of preferred bank stock in charge, and since Chairman Cummings of the Insurance Corporation was a member of the R.F.C. committee the contact was immediate and the action prompt. Where the bank was in a position to issue preferred stock, capital notes or debentures or to borrow upon preferred

TEMPORARY DEPOSIT INSURANCE

By HONORABLE J. F. T. O'CONNOR
Comptroller of the Currency

THE New Year will bring many banking changes. The Banking Act of 1933 provides for temporary insurance of bank deposits of all banks which become members of the fund up to $2,500. This feature of the Act should strengthen the banking system in three ways:

First, each depositor will feel secure in his deposits and this restored confidence should bring large amounts of money out of hoarding.

Secondly, false rumors will no longer keep bankers in fear of heavy withdrawals by depositors and,

Thirdly, a high degree of bank liquidity will not be so necessary.

The insurance of bank deposits will, no doubt, attract from the postal savings banks a large part of $1,187,183,373 on deposit in these banks as of June 30, 1933. The Banking Act of 1933 prohibits the payment of interest on demand deposits. Member banks of the United States during the past five years paid $1,230,242,000 interest on demand deposits, or an average of $246,048,500 per year. Can you visualize the strength of our banking system if this amount of money had been placed in a fund for insurance of bank deposits? Double liability has been eliminated on all shares of national bank stock issued after the passage of the Act. The discrimination, therefore, between bank stocks and other forms of investment has been removed. The liability of a shareholder has been changed from an uncertain and indefinite amount to the amount registered on the share of bank stocks. Other constructive features are found in the Banking Act of 1933.

Immediately following the banking holiday in March, 1933, there were 1,429 unlicensed national banks. Up to December 14, national banks to the number of 481 were reopened with deposits of $520,962,000; 137 liquidated voluntarily, representing $222,855,000, and during the same period 308 were placed in receivership, representing $861,246,000. On December 14, there were 510 banks remaining unlicensed, but, of these, 365 had plans approved for reopening and 131 had plans disapproved, while 14 had plans under consideration. This has been accomplished in the rather brief period of slightly over nine months.

The Reconstruction Finance Corporation has purchased many millions of dollars of preferred stock, capital notes and debentures to strengthen the capital structure of banks. A special liquidating committee appointed by President Roosevelt has distributed many millions of dollars to depositors.

This is the record; this is the actual accomplishment. We are justified in saying that the night is past and the morning dawns.

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stock, the R.F.C. promptly agreed to make the purchase. "We have accepted these R.F.C. commitments as satisfactory," says Chairman Cummings, "whether the actual transaction has been completed or not. We know it will be and that is all that is necessary." Moreover these R.F.C. advances have not been merely sufficient to enable the banks to qualify. They have been large enough to make them strong.

Under this intensive campaign the number of banks which have failed to apply for membership in the system has been rapidly reduced. Until the final figures are in, sometime after the New Year, it cannot be known how many banks will remain out of the system or how many banks have failed to qualify. The expectation of the authorities is that the latter may be held as low as 300, perhaps no more than half that number.

Contrary to an impression which has developed among many bankers in the closing days of the organization of the insurance fund, liquidity remains a secondary question in the matter of eligibility. "We are adhering to the original proposition," says Mr. Cummings. "So long as a bank has good assets sufficient to meet its deposit liabilities it is accepted. Its assets may be slow but they must be good. We accept real estate mortgages as sound assets if they are for a reasonable amount on good property. Of course, we cannot accept such assets as bonds at what a bank paid for them or at their face value. We can only accept them at their market value."

According to a survey by the Federal Reserve banks conducted last May, 23.7 per cent of all deposits in member banks are in accounts of $2,500 or less —the limit of insurance under the temporary system of insurance—although these accounts represent the deposits of 96.5 per cent of the number of depositors. If this ratio can be relied upon the aggregate deposits actually insured under the temporary plan, assuming total deposits in the insured banks are around $37,500,000,000, as indicated by the latest returns, would be only $8,887,500,000—considerably less than a third of the $29,000,000,000 or so which, according to estimates, would be insured under the permanent system.

The temporary system also involves much less capital contribution on the part of the banks. Apparently the new system starts with a capital of a little less than $350,000,000. The Federal Treasury has subscribed $150,000,000 as the Government's share. The Federal Reserve banks have subscribed about $139,000,000—half their surplus—as their share. If the ratio of individual deposits of $2,500 or less noted in member banks in the Federal Reserve would hold good for all institutions the banks would be called upon for only $44,450,000—one-half of 1 per cent of the insured deposits, only half of which is payable on entry into the system. — George E. Anderson

Congress

INTERNATIONAL

Still England. George V and Mary, Queen, ride in a very old carriage to open Parliament

GLOBE

Still Congress but a New U. S. Workmen get the Senate Chamber ready

KEYSTONE

Vox Populi. Senator Thomas and Father Coughlin at Madison Square Garden, New York. The priest praised the President's monetary policy and urged boycott of opposition newspapers

INTERNATIONAL

Vox Populi. Al Smith, whose frank ridicule of gold and monetary heresy angered the politically powerful Michigan priest, Father Coughlin

Preparations. For weeks in Washington sponsors of various bills have been getting their babies ready for the parade. Secretary Wallace, Senator Copeland and Dr. Tugwell are interested particularly in the bill, introduced last June, to supplant the Food and Drugs Act

KEYSTONE

Social Justice—Debtors—Speculators—Creditors—Wage Earners—Life Insurance Beneficiaries—Price Levels—and a Politically Managed Currency

Fantasy

By
GURDEN EDWARDS

IT would appear that most of the various types of inflationists have at least one thing in common. It is that they base their main position on the matter of social justice involved in respect to the debtor whose situation has been rendered difficult by a violent change from a high to a low price level.

The theory is that, if a productive borrower, such as a farmer who borrows $1,000 on his farm when the price level of his output is 100, has to pay it back some years later when the price level of his output has sunk to 50, then he, in effect, is forced to work twice as hard or twice as many hours to pay back the $1,000. In fact in a great many cases he is not able to turn out and sell enough of his commodity to produce enough dollars to meet the payments on his debt, and he is therefore ruined and loses his farm.

The inflationists say that this is a grave social injustice, that the nation owes it to debtors caught in this jam to take measures to protect them, and that the way to do so is simply to put back the price level to about the same place where it was when they incurred their debts. Within limitations this view is justified.

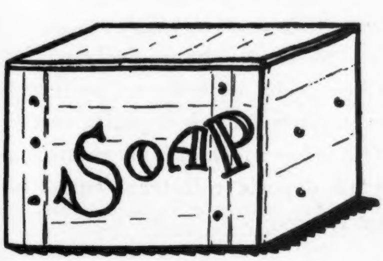
However, the thing is not so simple as this. The remedy is too easy to be true. For one thing it overlooks the fact that relatively a small proportion of the people are debtors strictly of the type really entitled to the special consideration on the basis of social justice that is indicated in the simple, clear-cut case as stated. Debt contracted imprudently or for speculative purposes is not entitled to be socialized any more than other kinds of mistakes. Many farmers over-expanded or bought acreage at unreasonable prices with borrowed money as a speculative rather than as a productive operation.

ONE-SIDED SOCIAL JUSTICE

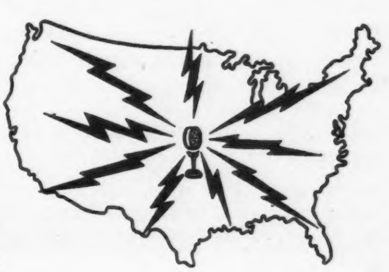
SPECULATIVE purchasers of lands on margin fundamentally are no more entitled to relief at public expense than are speculators who bought stocks or commodities on margin, planning to make a speculative as distinguished from a productive profit. Ordinarily there is nothing illegitimate in any of those attempts to make money by worrying instead of working—neither do they call for special acts of public charity, such as a nation owes to those disabled in fighting its wars. For it is basically true that depreciation of the currency through inflation is a tax upon present holders of money, or obligations payable in money, to the extent to which the money is depressed in value below that at which it was accepted by them.

Again, this theory of one-sided social justice overlooks the fact that a great many of the present holders of mortgaged lands were not the original borrowers but are persons into whose lap these properties have fallen as a result of the original borrowers' losing their homes and farms. Thus, making it easy for the present "debtors," who frequently in fact simply bought up distressed property, to repay the mortgages, would merely add to the exorbitant profits that they stand to make ultimately on the land. The original debtors have often passed out of the picture through loss of equity and are beyond relief so far as that is concerned.

Again, this supposedly simple remedy of raising prices by currency inflation overlooks the fact that the monetary mechanism is highly complex, and tinkering with it sometimes produces unexpected and unpredictable results. The spread between the relative price levels of the things the farmer has to sell and the manufactured products he has to buy may be seriously increased against him when it happens, as is now the case, that raw agricultural products are in a state of great world over-supply and therefore their prices move more slowly than those of manufactured products, in which inventories are low, restriction of output is controlled and prices rise. (CONTINUED ON PAGE 46)



Forsaking the soap box for the microphone, local orators nowadays find larger audiences for their inflation talk



By GILBERT T. STEPHENSON

The Protection of Uninvested Trust Funds

WHICH is the better method of protecting uninvested trust funds—the statutory or judicial declaration of preference, or the deposit of securities? The statutory declaration of preference would seem to be the preferable method in that it puts everybody on notice that, within the terms of the statute, all trust funds on deposit are preferred claims, and eliminates all questions arising from the fluctuation of the securities on deposit and the necessity of keeping on deposit enough securities at all times to cover a constantly fluctuating trust bank balance. From the standpoint of the general bank depositors, it really makes no difference whether the trust deposits are protected by statutory declaration of preference or by securities; in either case (if the securities are equal in amount to the trust deposit) their claims are postponed to the full satisfaction of the trust deposit.

The full protection of uninvested trust funds, either by preference or by deposit of securities, is so nearly general throughout the nation, in both national banks and state banks and trust companies, that it would be distinctly advantageous, it would seem, if the few remaining states at the next sessions of their legislatures could enact statutes specifically covering the subject of protecting uninvested trust funds.

The following are some of the typical state statutes requiring either deposit of collateral or declaring uninvested trust funds to be special deposits:

In California, trust funds shall not be used in the conduct of the business of the bank or trust company unless such funds are deposited with the savings department or the commercial department of the same corporation or association, in which case such funds are protected by a deposit of securities, the amount of which is graduated according to the amount of trust funds so deposited. It should be noticed that trust funds must be deposited in the banking department and protected by deposit of securities or else held as special deposits and unavailable for the uses of the bank or trust company.

Tennessee requires that funds deposited in a bank or trust company awaiting investment shall be carried in a separate account and shall not be used by the bank in the conduct of its business unless it shall first set aside, in the trust department, United States bonds or other securities approved by the bank commissioner.

Under the New Jersey statute, also, a bank or trust company may deposit trust funds in its own banking department in a separate account, but such funds shall not be used by the bank or trust company in the conduct of its business unless it shall first set aside, in its trust department, United States bonds or other securities approved by the commissioner of banking and insurance both as to the amount and character thereof.

The Oregon statute is still more specific. It provides that funds deposited or held in trust by any bank or trust company awaiting investment shall be carried in a separate account and shall not be used by such bank or trust company in the conduct of its business, unless it shall first set aside in its trust department an equivalent amount of bonds or securities eligible for the investment of trust funds. "In the event of the failure of any such bank or trust company," the statute continues, "the several owners of the funds held in trust for investment shall have a lien on such bonds or other securities so set apart in addition to their claim against the estate of such bank or trust company."

Under the new Pennsylvania banking law a bank or trust company may deposit uninvested trust funds in the banking department of another bank or trust company but, if it deposits them in its own banking department, there "shall be pledged or hypothecated by such bank and trust company, with the trust department of the bank and trust company acting as fiduciary, interest-bearing bonds or other obligations of the United States or of the Commonwealth of Pennsylvania, or such other securities as may be approved by the department. The par value of the bonds, other obligations, or securities, so pledged or hypothecated to secure such funds, or the market value if such market value is less than the par value, shall at all times be equal to an amount not less than the funds so used or deposited. If the bank and trust company which has put up such collateral should fail or be taken in possession by the department, the estate from (CONTINUED ON PAGE 48)

FULL protection for uninvested trust funds on deposit in banks is likely to claim special attention at the next session of the legislatures of several states. In general, there are two methods of protecting uninvested trust funds on deposit. One method is to have them declared by statute or court decision to be special deposits or preferred claims which take priority over general bank deposits or the claims of general creditors. The other method is by requiring the bank or trust company to deposit collateral equal in amount to the deposit of trust funds.

Another Month's Changes In the Status of Gold

In December the JOURNAL carried an article summarizing developments of this year affecting the legal status of gold in the United States. In the following article the history is resumed

Compiled by HERBERT M. BRATTER

October 21 to November 14

Gold Advances Steadily

Unbroken advance in R.F.C. price of gold for more than three weeks.

November 2

Gold Reported Bought in Paris

Unofficially reported that the American Government commenced purchases of gold in Paris. Since secrecy concerning the day-to-day operations was announced to be a policy of the R.F.C., the purchases could not be confirmed.

November 3

R.F.C. Notes Issued; Individuals Order Gold from Europe

First public offering of R.F.C. notes, Series of February 1, 1934, made, a New York firm announcing the offering of $2,128,743.88 of those certificates at a discount of ⅜ of one per cent per annum, or ⅛ of one per cent more than that paid the R.F.C. by U. S. gold producers.

Press reports from London indicate no knowledge in bullion circles there of any gold purchases for American Government account. From Paris, report that November 2 purchases there totaled about 2,000,000 francs, and November 3 purchases even less.

The same day a New York brokerage firm announced that private American corporations and individuals had placed orders with it for the purchase abroad of a total of 40,000 ounces of gold to be imported and exchanged for R.F.C. certificates.

November 4

Question Raised Regarding Imported Gold

Newspaper reports attribute to official quarters the statement that gold privately purchased abroad will not be purchased by the official agencies at more than $20.67 per fine ounce.

November 6

American Gold Purchased Totals $2,800,000

The R.F.C. was reported to have stated that $2,800,000 had been paid out for American gold.

November 7

Uncertainty as to Status of Imported Gold

Reported in the press that R.F.C. Chairman reiterates he knows of no reason why individuals or corporations may (CONTINUED ON PAGE 63)

Acid is applied in testing gold by the stone method

HANDY & HARMAN

Gold and Silver On the Capitol Doorstep

On December 2 the President ratified last June's London silver agreement (September JOURNAL). Government to coin half newly-mined domestic silver, other half to be held in Treasury as seigniorage. Silver price, 64½ cents an ounce.

WE have suspended the gold standard. At the moment, then, that metal is not our standard of value. But we do intend to stabilize our currency. And most persons think that the dollar will in the future again have a fixed gold content.

Gold, particularly, will be a subject of discussion on Capitol Hill. Will prompt revaluation satisfy the inflationists? Can we do away with gold, altogether? If we are not to discard it, should we supplement it? These are questions for the Congress. As a nation we cling to our $4,000,000,000 stock of gold. If anything, we regard the yellow metal as more valuable than ever, even though the efficiency of the old gold standard has been seriously questioned. That standard has been tried and found wanting; hence its present plight. It did not keep us from depression; hence, some think, it may have helped cause the depression. They would mend the gold standard, somehow. Perhaps with silver.

The chief criticism of the gold standard has been that it has offered no way out of the "maldistribution" evils. The system has become one-sided. It has experienced a "list to starboard". No gold-standard gyroscope is known that will guarantee the stability of the world's currencies for more than a brief time. How are we to correct the list without leaning too far to "port"? Shall we take on some silver as ballast?

We are interested in American problems first and world problems secondly. In so far as this country alone is concerned, there seems to this writer to be a plethora of gold in the reserves. *De jure* devaluation of the dollar, such as fixing the price of gold at, say, its present premium, would entail revaluation of our entire national hoard of the yellow metal. The 4,000,000,000 gold dollars now held by the Government and Federal Reserve System would be given a nominal value of many hundreds of millions more. We should then have more than enough gold for our internal needs. But, even if this were not done, our gold supply at its present nominal value of $20.67 per ounce is quite sufficient to bear a currency and credit superstructure larger than we had erected in gay 1929. Surely that was a sufficiently inflated structure, although we did not then regard it as inflated.

As to the world as a whole, particularly Europe and South America—for we must have an eye to the external factors—"maldistribution" of gold and its consequent scarcity in some countries can be remedied by the United States only through the exportation or earmarking of our own bullion supply. Are we willing to share our gold with the world? And, if we do, will it cure maldistribution? Maldistribution of gold has certainly caused much trouble. But

LIGHT-WEIGHT HYPNOTISM.

"Coin" Harvey was a famous advocate of certain types of inflation, bimetallism and free coinage of silver in the 90's

Gold: it is constantly being mined here by the hydraulic method

NESMITH

By **HERBERT M. BRATTER,**

Who Summarizes Here in Simple Terms The Proposition Before the Coming Congress

"COIN" THE DUNCE.

These cartoons are from *Sound Currency*, a periodical contemporary with Mr. Harvey and other monetary fanatics

this maldistribution has been, first of all, a result of economic law in action. It is a symptom rather than a cause. How maldistribution is caused may be readily explained.

When a country is on the gold standard it must keep its money "as good as gold". That it can do only by redeeming its money, directly or indirectly, in gold. If the balance of international payments requires outpayments greater than receipts, in such a country foreign exchange tends to go to a premium. Such country's currency is, abroad, accepted only at a discount, unless that country has a gold supply upon which it can draw. For one reason or another, various countries have exhausted their gold resources in attempting to meet their foreign obligations. Their gold was taken by other countries. Thus, while the amount of monetary gold in the world has increased in total, some countries have been stripped of it, while some others have more than they really need.

One question Congressmen will consider is whether we need more gold, or more dollars than we have. Hand to hand circulation of gold in this country is no doubt a thing of the past. This change, of itself, means a considerable economy of gold. It hardly requires any further attention from Congress.

The size of the gold dollar is a more important question before our legislators. They will consider whether we should make a further change in the amount of gold that is called "one dollar"; whether a dollar of gold shall serve as a basis for X dollars of currency and credit, as now; or for X *plus* Y dollars of currency and credit. Whether we do this by lowering our reserve ratio, by making bonds eligible as reserve material or by issuing fiat money—these are but different means to the same end—inflation. Another possibility is silver.

The main argument being made for the greater use of silver as currency is the inflationary one that such a step would broaden our monetary base. Those interested in silver claim that inflation through the remonetization of the white metal would be a "safe" inflation, because nature has limited the amount of metal in the earth, and unlimited paper money inflation would be avoided.

If one agrees that there exists no shortage of monetary gold at this moment, but simply the ill effects of gold "maldistribution" abroad, then the argument that gold needs to be supplemented here by silver loses its force. In the United States there is certainly enough "metallic base" underlying our currency for a considerable time to come. At present we have all the currency we need. Many of us, individually, do not have all the purchasing power we should, or would, have. But "currency" and "purchasing power" are not the same. If we acquire purchasing power through selling our goods or services to others, we can convert it into currency. But inflation of the currency by arithmetic alchemy will not bring about an equable redistribution of purchasing power. It will put "two dollars" where there is now but one. But it will not put even one dollar in an empty pocket. Hence, it is not clear how inflation can be a desirable thing for this country. However, assuming that the strong sentiment for inflation known to exist has its way, and that we are to have some form of currency inflation, there is a (CONTINUED ON PAGE 48)

Pulp: trucks of wood destined for the paper mills

EWING GALLOWAY

EWING GALLOWAY

Without Doubt Proceed

By

O. HOWARD WOLFE

Mr. Wolfe recently expressed his views on the banking situation verbally to a friend. The JOURNAL felt that they were of great worth and importance and persuaded him to dictate them in the form of a statement. This article is the result

DEPOSIT insurance is here, whether we like it or not. Unless the law is modified, as we confidently believe it must be ultimately, it will become the outstanding change in bank operation. With the general public it looms up as perhaps the most significant feature of the Banking Act of 1933, and perhaps the most misunderstood.

Presumably, the enforcement of deposit guaranty by law is intended among other purposes to restore and maintain public confidence in the banks, to bring into the banks money that might otherwise remain in hiding, and thus to put depositors' funds at work, through banking channels, in productive activity. We need not discuss for the moment the disturbing question of the practicability of the deposit insurance scheme, and the inherent danger of requiring careful, conservative banks to underwrite the bad loans of careless and inefficient banks, which is what deposit insurance must resolve itself into. Time will develop the answer to those questions just as it has already done wherever deposit insurance has been tried in the United States. Eight times, to be exact, and the answer has always been the same—failure!

Too often a polite, but stony, attitude of doubt greets the banker who tries to explain that deposit insurance is impracticable and unworkable. He is told in more or less good humor that his attempt to alibi himself out of his responsibility to depositors is too transparent, and that he'd better make up his mind to accept the deposit guaranty idea and to like it. Instead of defensive argument, let us ask ourselves some questions. For example—

Will deposit insurance bring hoarded money into the banks?

Will it speed up recovery? How?

Will it restore the kind of confidence really needed to accelerate prosperity?

FEAR?

PRIMARILY, deposit insurance is an antidote for fear. It was embodied in the Banking Act of 1933 largely, though not entirely, on that basis. In concept and in exploitation it has been dealt with by its advocates as a means of building confidence. Admittedly, last March the psychology of fear dominated the public mind; and it was fear manifested in the wholesale withdrawals of deposits that in large measure brought about the situation culminating in the national bank holiday.

But this is not March, 1933. The fear, which deposit insurance is intended to allay, no longer exists; and the patient—in this case, the banking system—has recovered from the most acute ailment of last March. January, 1934, brings its own problems, but fear for the solvency and stability of the banks that are now open and operating is not necessarily one of them. Of course, there are now, and always will be, timid individuals to whom currency in a safe deposit box is more attractive than a bank account; but the people whose deposits really count in terms of commercial banking are not among them.

For proof, let's take a look at bank deposits. In total, the money on deposit today is enormous in relation to the volume of general business being done. Yet, how many strong banks are there in operation today, whose deposits are appreciably diminished by reason of fear on the part of potential depositors? And conversely, how many banks are there in operation today, whose deposits may be appreciably increased by

EWING GALLOWAY

Ready: But Not Moving

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the abolition of fear through deposit insurance? Very few, if any—and that's a safe answer to both questions. There may be a switching of deposits, but not an increase except as new loans increase deposits generally. A few months of deposit insurance will demonstrate whether or not there is any significant amount in hoarding. If there is no great volume—or, at least, if it does not come out of hiding in response to the guaranty—then of what use will deposit insurance be as a stimulus to business activity?

Suppose, however, that millions of dollars come out of hiding and into the banks shortly after January 1. What will the banks do about it? Will these new deposits go into productive activity through means of commercial loans? Will general business, too, be stimulated through the release of this additional capital into commercial channels? It would be heartening, indeed, if there were any reason to look for such a result, but bankers must face the fact that additional deposits are likely to be an embarrassment rather than a help, as conditions stand. The truth is that deposit insurance cannot and will not create the kind of confidence so badly needed just now.

THE ANSWER

WE need *commercial* confidence in the present situation rather than bank confidence. We do not particularly need new depositors, but new and worthwhile commercial borrowers. And that's what business as a whole needs, too—men and concerns to borrow money with which to expand operations, increase facilities and create new enterprises. How many responsible borrowers are asking for loans today for commercial and industrial use? The unloaned deposits lying inactive in bank vaults all over the country give the answer.

We're told that there's a lag in the forward push to prosperity. It's intimated here and there that perhaps the banks are somewhat to blame and that they are not cooperating as they should, particularly in the matter of loans. Since bank earnings normally reflect the business activity of the communities they serve, the suggestion that the banks are intentionally retarding business recovery is obviously too absurd to require answer. If it is true that business improvement is being delayed at this stage, it is not because the public lacks confidence in the banks or because the banks are unwilling to do their part in legitimate commercial financing, but because there's a lack of confidence on the part of the business man, the man who is willing to take a chance if he can see a reasonable opportunity for a profit.

Governmental regulation of business and industry doubtless has its helpful function in the economic scheme of things as they now exist. There is need, of course, to curb unfair competition and cut-throat practices. But business needs vision, courage and initiative every bit as much as it requires legal restraint and overlordship. The proponents of a new economic and social order may smile at what we have been accustomed to calling rugged American individualism, but so far they have offered no practical substitute for it. To whom shall we look to carry forward our business progress, if not to the man who is willing to back his judgment with his money or his credit?

Therein lies the kernel of the recovery problem for banks, for the business and industrial community, and for the country at large. The business man must have (CONTINUED ON PAGE 67)

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Straight thinking and sound action by bankers will help immeasurably. This is no time to be confused by the inferences of deposit insurance or by loose talk about lack of confidence in banks.—The Author. . . . .

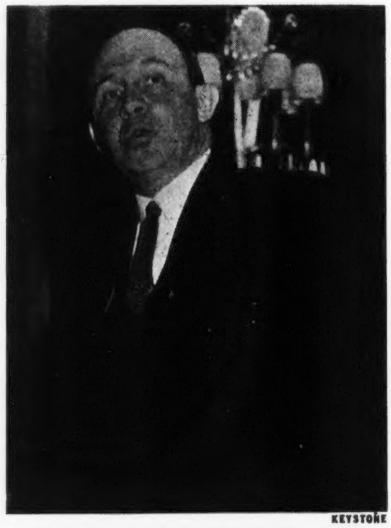
THE MONTH

GLOBE

TAXES. Acting Secretary of the Treasury Morgenthau, whose proposals for repairing the income tax law and closing loopholes in the schedules have been submitted to the House Ways and Means Committee

KEYSTONE

BANK REFORM. Winthrop W. Aldrich, President of the Chase National Bank, who urged a "banking system wisely made and coordinated" in a detailed statement to the Senate Banking Committee



KEYSTONE

NRA. Donald R. Richberg, General Counsel of the NRA, who disclosed to the National Consumers' League that the Recovery Act had not "changed human nature"

INTERNATIONAL

DEPOSIT INSURANCE. Walter J. Cummings, who has served as Chairman of the FDIC during the extraordinarily difficult months of its preparation and organization

KEYSTONE

AAA. Chester Davis, former chief of the Crop Production Section, AAA, who succeeded George N. Peek as Agricultural Adjustment Administrator, following a collision between Mr. Peek and Dr. Tugwell

EDITORIALS

1933–34 Dollars

THE United States Government owes about $23,-000,000,000. Probably more than half of this sum is owing indirectly to bank depositors, insurance policy holders and beneficiaries under trusts, on interest bearing securities held by various institutions. The total figure was increased by approximately $3,000,000,000 in the fiscal year ended June 30, 1933, and probably will rise during the current fiscal year another $4,000,000,000.

Meanwhile, the Government is seeking to raise prices to the 1926 level so that debtors can repay their loans in dollars of the same value as those they borrowed.

At the same time the Government is continuing to borrow large sums from the public. Obviously it does not intend to repay these 1933 loans in 1933 dollars. Therefore, while there is no question about the soundness of Government credit, there is a fundamental inconsistency in this situation that can hardly work out to the advantage of 1933 and 1934 creditors.

The President's Budget

HOWEVER, no one is likely to accuse either President Roosevelt or Lewis Douglas of a disposition to evade issues or responsibilities. "This will be the President's budget," says the Director of the Budget, "and I don't want to give any details until it is presented to Congress."

This year the national budget is the President's own budget in a special sense because upon the White House rest not only the details of taxation and expenditure, but also the decision on matters of broad public policy which affect the budget.

It has been the aim of the Bureau of the Budget not only to prevent any increase in the public debt after the end of the current fiscal year, but also to make a start during the next fiscal year on the actual retirement of that debt. The budget recommendations, as submitted to the President for the year beginning the first of next July, provide for spending slightly less than $2,600,000,000. This does not include debt retirement but does include interest on the debt and a partial restoration of normal pay to Government employees. The Bureau assumes that there will be an increase of 10 per cent in business activity next year over the current year. On the basis of current statistical evidence this is a conservative estimate.

The estimates of revenue next year, based on a 10 per cent rise in business activity, total $3,560,000,000, or nearly $1,000,000,000 more than Mr. Douglas' estimate of expenditures. Of course, expenditures for direct relief, public works and other features of the recovery program are still an unknown quantity, but the interest on and amortization of $2,500,000,000 of such expenditures are already provided for in current taxes. If the Bureau of the Budget has its way about it, the excess of revenue over ordinary expenditures next year will be applied to cover the balance and make some headway on the actual reduction of the public debt.

At all events, it looks as though the ordinary budget would balance. Balancing revenue and expenditures is the task of the Director of the Budget, and it would appear that the task has been well performed.

This, however, is based on the important assumption that the Reconstruction Finance Corporation will make no further demands on the Treasury, except those for which an allotment of funds has already been made. It must also be assumed that there will be no increase in the public works program, no requirements of additional capital for the Federal Deposit Insurance Corporation and no other additional obligations for relief or recovery. These are not minor assumptions. In fact, upon them hangs the fate of the budget as a balanced proposition.

If the Reconstruction Finance Corporation demands another $500,000,000 for financing various relief agencies and further aid to financial institutions; if the Public Works Administration finds it could use another $1,875,000,000 or so; if the Civil Works Administration needs $350,000,000, direct relief another $500,000,000, the F.D.I.C. additional capital of $400,000,000, the C.C.C. $300,000,000, the T.V.A. $250,000,000, and so ad infinitum, there would be at least a duplication of the current year's extraordinary budget appropriation.

Higher Taxes

THAT would mean that Congress would have to provide another $250,000,000, in round figures, to pay interest and amortization upon all these huge sums provided for relief and recovery. This interest and amortization would immediately swing all guesses, statistics and calculations of the Budget Bureau completely out of line with the facts.

In short, and in fact, there is every reason to believe that it is impossible, at the present time, to balance the nation's real budget on the basis of prospective income. This means more taxes. They are inescapable.

Finally, we know that the budget is the President's own responsibility and one cannot do otherwise than recognize the difficulty of his position. Not the smallest factor in his quandary is the certainty that in all matters of additional relief and recovery expenditures Congress might insist upon doing what any executive would hesitate to do.

The Vehicle for Recovery Is Capital, Not Credit

By DR. GEORGE W. EDWARDS

The author is chairman of the department of economics of the College of the City of New York

IT is indeed a sad commentary that adherence to one of the oldest fallacies in economics today is checking business recovery. The fallacy lies in the failure to distinguish between the meaning of credit and of capital. Credit, on the one hand, is an intangible power which is created when, having confidence in another, we grant him control over goods and services in exchange for his promise to repay in the future. Capital, on the other hand, is tangible, and it results when, not spending all our income, we put these savings to some productive use.

In times of financial difficulty there has always been a clamor for an extension of the volume of credit rather than of capital. Colonial Massachusetts, the American Confederation, Revolutionary France, post-war Germany, all made the error of trusting to credit rather than to capital as the means of solving their financial problems. In 1849 John Stuart Mill, writing on the importance of capital, made the following statement in his "Principles of Political Economy":

"This perpetual consumption and reproduction of capital affords the explanation of what has so often excited wonder, the great rapidity with which countries recover from a state of devastation; the disappearance, in a short time, of all traces of the mischiefs done by earthquakes, floods, hurricanes, and the ravages of war. An enemy lays waste a country by fire and sword, and destroys or carries away nearly all the moveables existing in it: all the inhabitants are ruined, and yet, in a few years after, everything is much as it was before. The healing force of nature has been a subject of astonishment, to exemplify the wonderful strength of the principle of saving, which can repair such enormous losses in so brief an interval. With the same skill and knowledge which they had before, with their land and its permanent improvements undestroyed, and the more durable buildings unimpaired, or only partially injured, they have nearly all the requisites for their former amount of production. If there is as much of food left to them, or of valuables to buy food, as enables them by any amount of privation to remain alive and in working condition, they *will in a short time have raised as great a produce, and acquired collectively as great wealth and as great a capital*, as before, by the mere continuance of that ordinary amount of exertion which they are accustomed to employ in their occupations."

Unfortunately the healing effect of capital is not being applied at the present time. The decline in the United States and in Europe in the use of capital may be seen in the table on this page, showing the amount of corporate financing in the leading capital markets of the world in recent years.

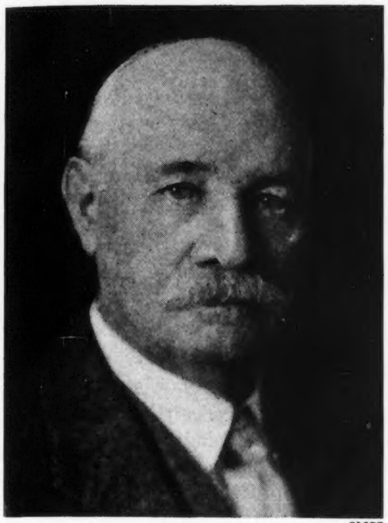
Corporate Financing in Leading Capital Markets, 1927–1933

(1926 = 100)

In order to facilitate a comparative analysis, the amounts are converted from dollars, pounds and francs into percentage figures.

	United States	*England*	*France*	*Switzerland*	*Netherlands*
1927	123	154	154	124	90
1928	128	160	218	114	104
1929	160	124	314	137	60
1930	111	116	457	212	94
1931	49	44	340•	185	42
1932	19	82	127	136	65
1933 (9 mos.)	8	98	65	73	14

SOURCE: *London Economist.*



GLOBE

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Securities Act

Senator Duncan U. Fletcher

After a conference with the President, Senator Fletcher announced that if any revisions of the Securities Act should be made in the next Congress, they would increase the Act's stringency, rather than relax it. The Senator gave the Act credit for having kept off the market what he called "hundreds of millions of dollars of worthless securities." Senator Fletcher had previously thought that the Act might be modified without essentially weakening it

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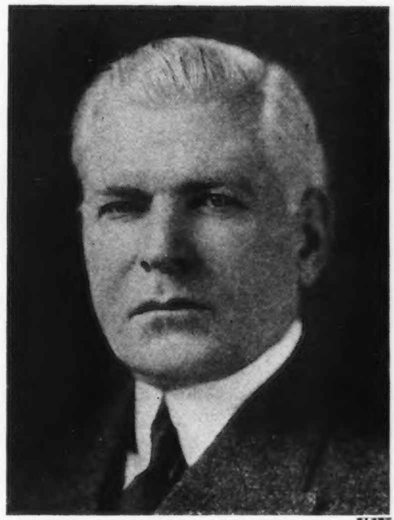
Money

Senator Elmer Thomas



GLOBE

Senator Thomas has submitted to the President a proposal whereby Congress would end the circulation of gold as coin. According to his plan, when the Treasury had paid with gold certificates for all the gold in the country at $20.67 an ounce, the dollar would be stabilized at a level of, presumably, 50 per cent of its statutory level and the certificates would become redeemable in gold, but only in $5,000 bars. The Senator calculates a profit for the Government of $4,325,000,000

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These figures show the sharp drop in corporate financing in all five countries. However, the greatest reduction has taken place in the United States, where corporate financing as compared with the volume in 1926 was down to 19 per cent in 1932, and 8 per cent for the first nine months of this year. These figures for the United States are far below the level in other countries.

A more detailed analysis of statistics on the operation of the American capital market over the same period discloses an even less satisfactory condition. The table shown below gives the amount of total financing, the amount of maturing obligations and the net change in million dollars from 1926 to 1933.

From these figures it is seen that from 1926 to 1929 the amount of total financing, or capital extension, exceeded the amount of maturing obligations, or capital contraction, by an increasing sum as seen in the last column marked "net change". However, after 1929 this net excess of capital extension decreased until 1933, when there was an actual net deficit. In other words, the amount of bonds paid off exceeded the amount of new financing, and so there was really a withdrawal of capital from the market. The United States, therefore, in the first nine months of the past year experienced a contraction of capital. Thus, probably for the first time in history a great industrialized state, in a period of economic stress, has been undertaking the task of stimulating business recovery with a contraction rather than an expansion of the volume of capital.

A review of the financial history of this country shows that almost every business recovery since 1885 has been preceded by a rise in the bond market. With the exception of 1891 and 1921 this has been the case. The lead of bond prices over business activity ranged all the way from one to nine months. The relationship between these two economic (CONTINUED ON PAGE 65)

Operation of the American Capital Market, 1926–1933

(in millions of dollars)

Year	*Total Financing*	*Maturing Obligations*	*Net Change*
1926	$ 7,430	$ 716	$+ 6,714
1927	9,934	1,055	+ 8,879
1928	9,991	890	+ 9,101
1929	11,592	995	+10,597
1930	7,677	1,160	+ 6,517
1931	4,023	1,328	+ 2,695
1932	1,721	1,092	+ 629
1933 [1]	827	1,184	− 357

[1] First nine months

SOURCES: *Commercial and Financial Chronicle* and the *Wall Street Journal*.

The Correspondent Relationship Now

A Visit with 36 Country Bankers

By ARTHUR VAN VLISSINGEN, JR.

WITHOUT correspondent banking, or something to serve the same purpose, the American banking picture would be much like a country dotted with small telephone companies, none of them connected with outside communities. This is a banking a-b-c. The free flow of funds from points where they are not needed at the moment to points where they are in urgent demand is what makes a banking system, as contrasted with a hodge-podge of unrelated units. Lacking such a system we should have financial chaos.

When business stagnation forced interest rates downward many months ago, and therefore compelled city banks to lower the rates allowed on balances of their correspondents, mutterings were occasionally heard that this development would upset the financial applecart. When Washington decreed last spring that no more interest should be paid on demand balances—a step which met little opposition from the city banks with large country bank deposits—a great many bankers, more especially in the country, predicted that city banks would feel a sharp drop in correspondent balances.

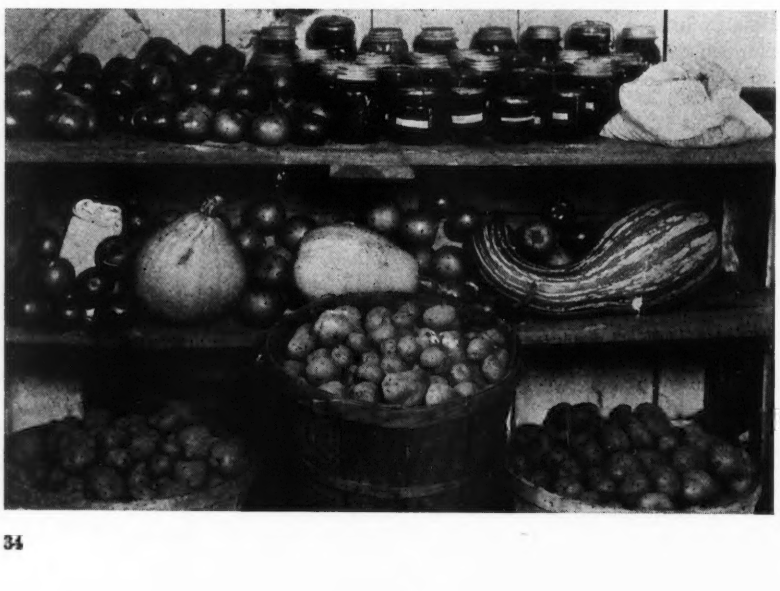
We have now had over six months' experience with the no-interest rule. The Banking Act of 1933 soon will begin to make itself felt in other major respects. Code committees are at work in all the different jurisdictions, many of the local, group and clearinghouse codes are in use either officially or unofficially. The army of bankers is to be put through an entirely new set of evolutions by drillmasters under a new set of drill regulations. Little wonder that a good many predictions have been heard that the new rules may have some upsetting and undesirable effects on the relationships between country banks and their city correspondents. As one country banker expressed it in private conversation, "with the Government running the banks there's no telling what we'll be doing two months hence because of some new law or regulation."

The approach to what is happening and about to happen is to study how the country banker can and must work under the new rules. His are the funds which mount to imposing totals in the city banks; his is the initiative as to whether the relations of country banks and city correspondents will remain unchanged, modified or completely upset.

The writer started out a week ago to find the facts by asking the country banker—not by questionnaire, but face to face. Six days touring three middle western states, 700 miles on the speedometer, 36 bankers interviewed—their deposit totals ranging from barely \$100,000 to almost \$12,000,000. Long before the week was up the facts were evident.

So far—and this is borne out by national statistics of balances in Reserve cities—there has been very little change in correspondent balances carried by these country banks in city institutions. Twenty-eight of the 36 studied reported that they had not changed their general relationships, nor their proportionate balances as between correspondent banks and the Federal Reserve bank; this includes all but one of the banks with deposits over \$2,000,000, all of the very small banks under \$200,000 and two-thirds of the banks classified for this purpose as small (\$200,000–\$500,000) and medium (\$500,000–\$2,000,000). Five of the banks were carrying somewhat larger proportions than previously in the Federal Reserve bank, one of them large, three medium, and one small. Two of these are banks which have joined the Federal Reserve System since the moratorium, and consequently have moved their legal reserve to the Reserve bank. Only three of the banks were carrying

Domestic—Wider markets for local products. The correspondent system enables small banks to offer nationwide facilities.



most of their money in the Federal Reserve. Since by far the greatest number had made no change, and this includes most of the large and medium size country banks investigated, there appeared to be no change of any great importance.

Eight bankers, including one with a large bank, believe there will be some shift away from correspondents and into the Federal Reserve, both for services and for balances. And one man, with a small bank, expects the complete severance of correspondent banks and country banks beginning about March 1, 1934. Several of the smallest bankers believe that service charges on small checking accounts, as imposed by the codes, may so reduce their deposits as to lessen their city balances.

Typical of the attitude of most of the larger of these country banks is the comment of the executive head of the second largest bank visited. He states his position: "No change has come yet in our relationship with our city correspondents, nor has any been perceptible in the relationship toward us of the dozen or so little neighboring banks which carry balances with us. When we have any excess cash above legal reserves, we keep it in Chicago, the bulk of it in one bank there. If that Chicago bank should close, then in my opinion the Federal Reserve bank would be no better. Even if some situation should arise which would overwhelm our principal correspondent, and that moment should find us with all of our cash items in actual currency, the catastrophe would be so great that we would go under as part of the backwash. So would every other country bank in the Middlewest. Why worry, then, about whether to keep it in the Federal Reserve or in that bank in Chicago? I'd rather leave it where we get the service, in the correspondent bank."

Even stronger was the statement of another man with a big bank in a small city: "We have accounts in every big Chicago bank, and I expect to keep them there and strengthen them if we ever have more cash than right now. Quite aside from the routine services these correspondents give us, we need their active help on the new business side. And we get their help. They get right in harness with us and help us pull home such accounts as the big national chains and the big manufacturers and distributers who do business in our territory. We must do our part by carrying good balances with these city banks."

Every country bank on the route

EWING GALLOWAY

Export—(Naples harbor above). The correspondent system permits interior banks to offer worldwide banking facilities to local exporters.

which has correspondent balances from cross-roads banks reports that these balances have not been affected in the least by the loss of interest since June 15, and that such changes are not expected by these little correspondents of theirs. "Why," exclaimed the president of the largest bank called on, "we actually find our correspondents increasing their balances surprisingly. Just the other day one little bank suddenly and unexpectedly collected in a single day several notes equal to about 20 per cent of its total deposits. They hustled those drafts in to us just as fast as they could, and told us that with collections picking up they expect to increase their balance considerably. No, neither the balances nor the attitudes of our correspondents have changed for the worse, and we are doing just as well by our city correspondents."

Half a dozen others express views only slightly less favorable to the prospects for correspondent relationships and balances:

"We shall probably carry somewhat larger balances in the Federal Reserve, less in city banks. But by no means will this be a complete break. We expect too much and need too much service to break off with our city banks."

"I doubt whether the Federal Reserve will ever organize to handle all the junk we have to clear. We must keep New York, Chicago and Milwaukee accounts for drafts. I look for very little change, if any."

"If the Reserve sets up a way to clear our transit items cheaper, of course we'll use it. But I doubt whether there will be much change."

"We expect to carry our present abnormally large cash balances in the city banks until loan demand and public confidence permit us to lower our cash to a profitable level. But we'd rather let the city banks pay insurance on it, meanwhile, than hold it in currency."

These are typical comments by country bankers.

[This is a preliminary report. Conclusions and a summary will be published in February.]

What of the future? Country bankers are not quite so sure about that. But the preponderance is still with the *status quo*. Twenty-one banks of the 36 interviewed believe little or no change is coming; four more say that most of the change has already taken place as a result of abolishing demand interest. This group of 25 whose views are practically identical, agreeing that nothing much is going to happen, includes all but one of the large banks and a majority of the medium size banks

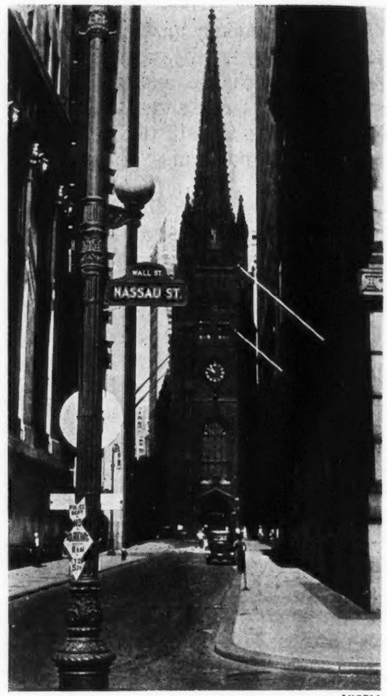
The New Importance Of Commercial Paper

THERE need be no doubt that, if the Securities Act continues to prevent normal long term financing of commerce and industry, some other means will be found to meet the latter's financial requirements. The other means, naturally, must be some adaptation of short term borrowing. The stagnation in the long term capital market resulting from the operation of the Securities Act has led to a rather well founded belief that much of the "all other" bank loans now outstanding consist of paper which represents capital rather than short term advances. This idea attaches particularly to outstanding commercial paper. Still far below its normal volume, commercial paper financing has more than doubled in the past six months, and for the past two months it has exceeded the volume outstanding in any month since November, 1931. The lowest point in this form of credit was reached last May after a steady month-to-month decline since the middle of 1930, and indeed a more or less steady decline year by year since 1924. Since May the increase from month to month has been both steady and rapid.

How far this increase has represented the use of commercial bank funds for capital purposes is uncertain. Probably up to the present time such use has been small. The possibilities these forms of credit offer are great. It is known that in a number of cases large corporations, faced with maturities which they were unable to refund in the present state of the market, have had recourse to bank loans and other short term financing. There are indications that considerable semi-capital financing made necessary by N.R.A. requirements has been done in the same way. Difficulties due to the Securities Act have made this variety of borrowing a necessity, and it has been stimulated by the exceedingly low rates of interest on such paper resulting from the open market operations of the Federal Reserve and the great increase in excess reserves of member banks.

To the banks of the country the importance of this reaction in favor of commercial paper financing lies in the fact that it reflects fundamental credit conditions as well as mere changes in methods of financing. The use of the open market commercial paper method of securing funds rather than through direct bank loans or acceptances depends upon many considerations, particularly interest rates, open market money conditions, rates of rediscount on various categories of paper, the financial standing of the borrowers in national markets and the nature of the transactions to be financed. Commercial paper borrowing is especially advantageous to processors and large retailers who are not in a position, conveniently, to pledge the products or commodities covered by the financing in the manner which is the very foundation of the acceptance method of financing.

Commercial paper financing was the dominant if not the sole means of open market borrowing for commercial or industrial purposes up to the development of the acceptance market soon after the World War. Even up to 1924, despite new facilities, commercial paper borrowing showed a tendency to increase in greater proportion as compared with other forms of commercial borrowing. The outstanding volume of such paper reached its highest point that year, averaging $873,000,000 for the year. It exceeded the volume of acceptances outstanding until 1926.



ANGELL

Quiet Wall Street. This picture was taken one Sunday afternoon. It is symbolic of what some brokers feel will happen if Congress goes in for stricter regulation

After 1924, however, although bank credit in general continued to increase until 1929, commercial paper borrowing decreased. The decrease was rapidly accelerated as the demand for money for speculative purposes increased but was halted, temporarily, with a break in the speculative movement. The average outstanding in 1925 was $726,000,000; in 1926, $630,000,000; in 1927, $585,000,000; in 1928, $494,000,000; in 1929, $322,000,000; in 1930, $489,000,000; in 1931, $263,000,000, and in 1932, $105,000,000. At the end of December, 1932, the amount outstanding was $81,000,000. It rose to $85,000,000 last January, fell to $84,000,000 in February and thence to $72,000,000 in March, $64,000,000 in April and to $60,000,000 in May. The reaction then started and the volume rose to $73,000,000 in June, $97,000,000 in July, $107,000,000 in August, $123,000,000 in September and $130,000,000 in October.

While the increase in the volume of such paper outstanding since May is notable in proportion, the actual volume is still so far below normal that the full extent of the movement cannot be estimated. It is chiefly important in its tendency, especially with relation to other factors affecting the financial markets. (CONTINUED ON PAGE 56)

Suggested Standard Form for Confirmations

__________________19____

Dear Sirs:

We shall be obliged if you will kindly complete the attached report and mail it, in the enclosed addressed envelope, direct to

Yours truly,

____

By__________________ _ _

Report from

(Bank) ________________________

STANDARD BANK CONFIRMATION

AMERICAN INSTITUTE PUBLISHING Co., Inc.

If this form is not used in replying, please mention reference ________

Dear Sirs:

We hereby report that at the close of business on ______________19____our records showed the following balance(s) to the credit of________________________ subject to withdrawal by check except as noted:*

AMOUNT	DESIGNATION OF ACCOUNT	REMARKS (STATE IF BALANCE IS NOT SUBJECT TO WITHDRAWAL BY CHECK AND WHETHER OR NOT IT BEARS INTEREST)
$		

We further report that the above mentioned depositor was directly liable to us in respect of loans, acceptances, etc. at the close of business on that date in the total amount of $______________, as follows:*

AMOUNT	DATE OF LOAN ETC.	DUE DATE	INTEREST		DESCRIPTION OF LIABILITY, COLLATERAL, LIENS, ETC.
			RATE	PAID TO	
$					

and was contingently liable as endorser of notes discounted and/or as guarantor at the close of business on that date in the total amount of $______________, as below:*

AMOUNT	NAME OF MAKER	DATE OF NOTE	DUE DATE	REMARKS
$				

Other direct and/or contingent liabilities, open letters of credit and relative collateral, liens, etc. were:*

Except as stated above, according to our records the said depositor was in no way obligated to us.

Yours truly,

(Bank) ________________________

Date__________________19____ By__________________ ________

Authorized Officer Title

*If no such items exist, please insert "NONE". If, on the other hand, the space provided is inadequate, please enter totals hereon and attach a statement giving full details as called for by the above columnar headings.

The customer's signature as authority for furnishing information to the auditors appears at the top of the duplicate, retained for the bank's record

NO ONE knows better than the banker, of course, the importance of certified financial reports as sources of credit information; and a well known bank credit officer has stated that "a steadily increasing number of our larger borrowers are obtaining the services of certified public accountants in the preparation of their financial statements." This all points toward closer cooperation between bankers and accountants in the interests of better credit granting, and the Robert Morris Associates and the accountants' own organizations have been working toward this goal for several years through special committees for the purpose and through their local chapters. Now the American Institute of Accountants has come forward with its standard bank confirmation form, which is intended to facilitate the work of both accountants and bankers in connection with the confirmation of certain assets and liabilities. The new form is reproduced here.

Suggested originally by bankers because of the absolute lack of uniformity of requests as now received from accountants, the A.I.A. made a study of the subject through its committee on cooperation with bankers. This committee secured 21 specimen copies from as many representative firms of accountants. The committee then prepared a preliminary form embodying the desirable features of those studied. This was submitted to several bankers and their suggestions were secured. Moreover, according to the committee's report, it found that the banks would welcome a standard form, that they prefer one general form of request rather than separate requests for each class of asset or liability to be confirmed, that they want a duplicate form to be retained in their files, and that they prefer and sometimes insist that the word "certify" be omitted from confirmations prepared for their signatures.

Further committee discussions resulted in the drafting of the final form as reproduced here, and the A.I.A. believes that it has a number of mutual advantages. It is adapted for use in window envelopes, is spaced for fill-ins on any standard typewriter, and can be filed easily with the auditor's working papers. The name of the client and the date as of which confirmation is required need be inserted only once. From the auditors' viewpoint, too, the space provided on the original copy for insertion of initials facilitates distribution to accountants working on any particular audit.

This new form does not attempt, of course, to cover specifically every class of asset or liability on which confirmation may be requested in some instances. For example, as the committee pointed out, the request for a list of securities held for safekeeping is purposely omitted, as this applies in only a few cases. Such a request can be made the subject of a separate letter addressed by the auditor and bearing the countersignature of the client.

Code Interpretations

Each month the JOURNAL presents a record of developments under the Bankers Code and rulings made by the Banking Code Committee. Such interpretations as are given below are answers to specific questions received by the Committee and subject to confirmation by the N.R.A. Administrator.

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Applicability

TRANSFER AGENTS, REGISTRARS AND DIVIDEND DISBURSING AGENTS—APPLICABILITY OF BANKERS CODE

Question: "We would appreciate an opinion as to the extent to which private banks accepting deposits will be included in any prescribed code. For instance, if the New York Committee provides a schedule of charges for transfer agencies, custody accounts, payment of coupons and bonds, and perhaps other services rendered by fiscal agents and depositaries, will such schedules apply to private bankers accepting deposits?

"Furthermore, there are a few corporations in New York which have the right to and do act as transfer agents, registrars and dividend disbursing agents, performing the same functions or services offered by trust departments of banks and trust companies. Are such corporations bound by any fair trade practice agreement under the Code?"

Answer: Consistent with the objective of the Bankers Code to prevent unfair competition and to promote fair trade practices, it is our opinion that in the absence of any specific code applicable to a non-banking group, all individuals, corporations or institutions, by whatever name designated, and not specifically defined in Article 1 of the Bankers Code, which perform the established services offered by trust departments of banks and trust companies, shall be subject to the Bankers Code and shall be operated in accordance with the provisions of Schedule A thereof.

This will include such individuals, private banks, corporations and other agents to the extent that they are engaged in the trust business as defined in Article 1, Section 2 of Schedule A, of the Bankers Code:—

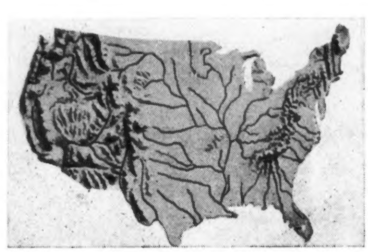
"Trust Business—Trust business is the business of settling estates, administering trusts and performing agencies in all appropriate cases for individuals; partnerships; associations; business corporations; public, educational, social, recreational, and charitable institutions; and units of government. It is advisable that a trust institution should limit the functions of its trust department to such services."

"Performing agencies," as defined above, includes acting as transfer agent, registrar and dividend disbursing agent.

PLEDGE OF ASSETS TO SECURE PUBLIC FUNDS

Question: It is a common practice with country banks at the present time to pledge marketable securities for deposits of schools and village accounts. Is this practice compatible with the N.R.A. Bankers Code?

Answer: While it may be the practice in some sections for banks to pledge marketable securities for the deposit of school and village accounts, such practice is condemned by the American Bankers Association.



In the Report of the Economic Policy Commission, approved by the Executive Council of the American Bankers Association on April, last, it was declared that "Deposits of public funds in banks should have the same status as private deposits and should not be accorded special and additional security."

The Bankers Code, as you know, provides for the adoption of rules of fair trade practices, and there is no reason why the rules condemning the practice of pledging assets to secure public funds should not be included in the rules submitted by clearinghouse association groups. All rules of fair trade practices, of whatever nature, which promote sound banking, are acceptable to the Banking Code Committee, provided they are not in contravention of some practice or rule required to be observed by the state banking law. That is to say, in the absence of a mandatory rule, order or statute of the state or Federal banking authorities, the Bankers Code is the governing law for all banks.

RULES OF FAIR TRADE PRACTICES FOR CITY CLEARINGHOUSE ASSOCIATIONS—APPLICABILITY TO NON-MEMBERS AND TO SUBURBAN SECTIONS

Question: What are cities like Seattle doing about suburban banks within territory embraced in clearinghouse but not members thereof? Have such banks the option to have their own rules and regulations or to be included in some larger organizations embracing the territory surrounding such city but not included in city clearinghouse territory? Please define trade area as used in connection with Bankers Code. What jurisdiction covers branches located outside clearinghouse district of parent bank?

Answer: Bankers N.R.A. Committee for Greater New York is preparing a

draft of schedules for all clearinghouse banks located in all boroughs, and local organizations of non-member banks in each borough are at the same time preparing separate schedules with view to having items in all schedules tabulated in an attempt to harmonize differences and adopt single minimum schedules with possible differentials that can be agreed upon. Suggest you work out this plan for Seattle and outlying territory.

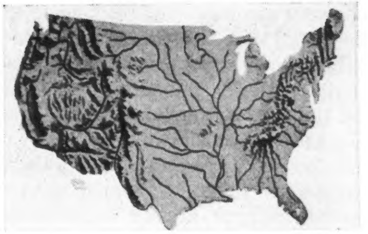
The definition of "immediate trade area" referred to above is as follows: It refers to suburban sections in the larger cities and to whole districts which, although not dominated by the same city, are concerned with the same kind of industry or agriculture and are more or less interdependent upon each other. It is suggested that these words be interpreted on the grounds of common sense and in full compliance with the spirit and purpose of the Code. For example, a branch of a city bank located in a suburb of a city where the suburb does not have over 2,500 population would be in a trade area controlled by the hours of employment applicable to the city.

POSTPONEMENT OF EFFECTIVE DATE OF RULES OF FAIR TRADE PRACTICES NOT AUTHORIZED UNDER BANKERS CODE

Question: Please advise if it is permissible to make county and clearinghouse rules under Code effective January 1 if approved by local and state association committee before December 2. Association is objecting to enforcing Code before guaranty goes into effect, fearing unfavorable public reaction.

Answer: The Bankers Code does not authorize postponement of the effective date of the rules of fair trade practices, which, as you know, is definitely fixed for December 2. If the formulation and submission of rules is unavoidably delayed until after December 2, because of emergency conditions, the Code Committee will have no alternative but to approve them for immediate enforcement at the time of their submission. This, however, should not be construed to postpone enforcement of the rules, as this is not permissible under the Code and would set a dangerous precedent for other groups requesting postponement.

It is the policy of the Committee to preserve as far as practicable uniformity of the practice throughout the entire country and to avoid any departure from the express provisions of the Code.



All groups are expected to have their rules formulated and submitted in time so that they can be approved and become effective on December 2. Any exceptions favoring one group over another would be contrary to the spirit of the Code.

Compensation, Hours, Service Charges

". . . SERVICES RENDERED BY BANKS SHALL BE COMPENSATED FOR EITHER BY ADEQUATE BALANCES CARRIED OR BY A SCALE OF CHARGES"—MEANING OF THESE WORDS.

Question: Considering dispute resulting from Federal Reserve ruling on metered service charge plan, shall we continue to urge local clearinghouse associations for codes? We are fearful ruling will destroy entire plan, and most California clearinghouses are omitting metered plan from codes. Shall appreciate instructions.

Answer: Attention is called to Article VIII, paragraph 3, of the Code dealing with service charges, which states—"Services rendered by banks shall be compensated for either by adequate balances carried or by scale of charges." This means that a bank shall not render services free of charge or at a charge below cost. It must compensate itself for the services by showing that the balance has sufficient earning capacity to the bank to offset the expenses of handling the account in addition to a fair margin of profit; or if not so compensated, the bank must make an adequate service charge. Such service charge plan, based upon factual data and universally applied to all depositors alike, gives nothing free to the depositor, and is in accordance with the letter and spirit of the Bankers Code. We advise that clearinghouses be urged to proceed in setting up all fair trade practices and schedule of service charges in accordance with recognized sound banking procedure.

UNIFORM MAXIMUM HOURS DURING WHICH DOORS OF BANK ARE OPEN TO PUBLIC

Question: Proposed code for Raleigh Clearinghouse Association provided a maximum of 24 public banking hours per week. State code provides 30 hours. On June 1 a majority of the banks in Raleigh were open a minimum of 29 hours. Can local clearinghouse inaugurate 24 hours under national Code, no bank eliminating employees on account suggested change, but all increasing personnel since June 1?

Answer: Under the facts stated by you, the maximum hours for Raleigh banks should be 29 hours. Should clearinghouse banks then fix hours under this maximum by clearinghouse rule, Code Committee would probably not interfere unless such rule resulted in eliminating employees or lessening their wages.

SERVICE CHARGES ON DORMANT OR INACTIVE ACCOUNTS

Question: In drawing up the Code of Fair Trade Practices, the Pittsburgh Clearing House Association has confronted the question as to whether or not a national bank would have the right to apply the service charges on inactive, or you may say, dormant accounts which have been inactive for many years, and I am writing to ascertain if this question has been brought to the attention of your Committee and if so, whether or not they have arrived at a decision; also if the question has been put up to the Comptroller of the Currency as to whether or not he would permit such charges, which would eventually absorb these balances.

We, ourselves, are of the opinion that a service charge on inactive accounts is justified due to the fact that they require more care than an active account, to prevent manipulation due to their inactivity.

Answer: The objective of the Bankers Code is to make all banking operations profitable. In accordance with this objective, no accounts are to be carried at a loss to the bank or at the expense of other depositors. No exceptions should be made to this policy. In many instances, where a loss is shown by analysis of an account, the practice has been to charge this loss to the customer. Under such conditions, the account just breaks even and no profit is made. Under the Bankers Code, an additional charge should be made to cover a fair profit that should be earned on the account. (CONTINUED ON NEXT PAGE)

A fair margin of profit on commercial deposits is 1½ per cent per annum on the average amount of these deposits. Accordingly, the profit to be added to the service charge should be ⅛ per cent per month, or 1½ per cent per annum of the average balance of the account.

These service charges, including a fair margin of profit, should be placed upon all unprofitable accounts, to apply equally to church organizations, charitable institutions, and the like; the accounts of bank officers and employees; the accounts of their families and relatives; the personal accounts of corporation officials, members of firms or other business concerns, regardless of the size of the accounts maintained by such corporations, firms or other business.

Inactive or dormant accounts will likewise be included, provided it can be shown that they are operated at a loss.

UNPROFITABLE SAVINGS ACCOUNTS

Question: The Code calls for compensating balances or service charges. Everyone knows that a small savings account, say up to $25, maybe $50, is not compensating if interest is paid on it. Under the Code will we be permitted to pay interest on these small accounts? If not, what about school savings?

Answer: We do not believe that interest should be paid on small accounts to the extent that such payment will result in a loss to the bank. Attention is called to the specimen schedule of charges on savings accounts on page 13 of the Manual. Item 13 reads as follows:

"13. Savings accounts may be accepted from $1.00 up, but due to expense of opening and handling, no interest shall be credited at the end of interest period when it does not aggregate at least 15¢."

RULES AS TO SERVICE BY BANK IN ONE DEPARTMENT PREDICATED UPON EARNINGS IN ANOTHER

Question: Was there any consideration given in the code meetings as to service in one department predicated upon earnings in another? For instance, would it be permissible to handle a number of collections free because an account carried a sizable trust, or would it be permissible to waive charges on a small checking account because a large savings account was maintained?

Answer: One of the fundamental principles governing fair trade practices is that the bank is entitled to adequate earnings on *all* banking operations, and that each charge is adequate to bear *its respective share* of the burden. In other words, no individual accounts are to be carried at a loss to the bank and no exceptions should be made to this policy, as for example, waiving charges on a small checking account because a large savings account was maintained.

WAIVER OF SERVICE CHARGE NOT PERMITTED ON PURELY CHARITABLE ACCOUNTS

Question: Was it the intent of the Code Committee to prevent franking checking accounts of any character, such as parent-teachers' associations, charity organizations and the like?

Answer: No accounts are to be carried at a loss to the bank or at the expense of other depositors. No exceptions should be made to this policy. It should apply equally to church organizations, charitable institutions and the like; to the accounts of bank officers and employees; to the accounts of their families and relatives; and to the personal accounts of corporation officials, members of firms or other business concerns, regardless of the size of the accounts maintained by such corporation, firm or other business.

Interest Rates

UNIFORM METHODS OF FIGURING INTEREST TO BE ADOPTED BY CLEARINGHOUSE ASSOCIATION

Question: Would a local N.R.A. Committee be exceeding its powers if it formulated rules for uniform methods of figuring interest, even though such rules were not limited merely to the compounding of the interest paid at the maximum rate agreed upon, but included as well such matters as the elimination of days of grace, cessation of interest on any withdrawals made during a quarterly or semi-annual period, etc.?

Answer: If a city or regional clearinghouse association or other banking organization, functioning as a unit under the Code, adopts rules such as those set out in this question, there could be no reasonable objection on the part of anyone else. It should be understood, however, that where some banks in the group are bound by certain laws or governmental regulations in regard to the method of figuring interest, it would be much better practice for the other banks to conform so that uniformity would be procured.

INTEREST REGULATIONS OF FEDERAL RESERVE BOARD EFFECTIVE NOT LATER THAN DECEMBER 2, 1933

Question: When must non-members of the Federal Reserve comply with regulations regarding interest reduction?

Answer: All banks, including nonmembers of the Federal Reserve must comply with interest regulations not later than December 2.

METHOD OF CALCULATING INTEREST

Question: As to Paragraph (2) of Article VIII, we are somewhat confused by the inclusion in the first sentence of the paragraph of the words "as prescribed in the Banking Act of 1933." We are unable to find any reference to a method of calculating interest in the Banking Act of 1933, although Federal Reserve Board Regulation "Q" limits the compounding of interest to compounding semi-annually (at a rate not to exceed 3 per cent).

Answer: The words "as prescribed in the Banking Act of 1933" refer not only to the Banking Act of 1933 but to any governmental regulations or rules under that Act. Therefore, Federal Reserve Board Regulation "Q" would control the question.

REGULATION Q OF THE FEDERAL RESERVE BOARD

Question: Does the Code automatically bind all banks to obey Regulation Q restrictions in toto, specifically section four? If so, neither persuasion nor banking department action is required to secure uniformity.

Answer: All banks as defined in Article I of the Code will be governed by local rules and regulations of fair trade practices, which rules must conform to regulations of the Reserve Board with respect to maximum rates of interest and all matters pertaining thereto.

Legal Notes and Digest

C/D Forms

INTERPRETATIONS and opinions given here relate to timely legal questions affecting banks. They are summaries, prepared for the JOURNAL by the Legal Department, American Bankers Association, for your information and convenience.

BANKERS are vitally concerned with the matter of forms to comply with Regulation Q of the Federal Reserve Board. Certificate of deposit forms 1 and 1A were printed in the December JOURNAL. Additional forms are now available. Forms 2 and 2A differ from 1 and 1A only in that they are payable not at a specified date but at a specified period after date.

A form prepared for one payee is not adapted to, and should not be used for, a joint certificate. Form 1 has been altered for a joint certificate in form 4. The other forms can be similarly altered.

The notice of repayment (on the following page) is for use with forms 3 and 3A.

No bank will use all the forms. Many banks will use only one, in addition to the joint certificate form.

The standard size is 3⅜ by 8⅜ inches.

•

(a) Print bank transit number, as "74–112."
(b) Print place.
(c) Leave blank for "his", "her", or "its", or print "depositor's".
(d) Print, or leave blank for, period in terms of days or months.
(e) 3% maximum under Regulation Q.
(f) Leave blank for "him", "her", or "it", or print "depositor".
(g) Print, or leave blank for, specified number of days.
(h) Probably will be one day more than that specified above in (g), because the depositor has the option to demand payment if the new interest rate is not acceptable, and he should have at least one day's leeway to give the bank written notice.
(i) Leave blank for specific date.

2

FIRST NATIONAL BANK (a)
NEGOTIABLE TIME CERTIFICATE OF DEPOSIT

No.____ $____

____(b)____ ____193__

____HAS DEPOSITED IN THIS BANK

____DOLLARS

PAYABLE TO____(c)____OWN ORDER____(d)____AFTER DATE, UPON SURRENDER OF
(NOT LESS THAN 30 DAYS)

THIS CERTIFICATE, PROPERLY INDORSED, WITH INTEREST AT____(e)____% PER ANNUM. NO PAYMENT BEFORE, AND NO INTEREST AFTER, MATURITY. SUBJECT TO PRESENT AND FUTURE LAWS OF THIS STATE AND OF CONGRESS AND TO REGULATIONS OF STATE AND FEDERAL AUTHORITIES.

____
CASHIER

2A

FIRST NATIONAL BANK (a)
NONNEGOTIABLE TIME CERTIFICATE OF DEPOSIT

No.____ $____

____(b)____ ____193__

____HAS DEPOSITED IN THIS BANK

____DOLLARS

PAYABLE TO____(f)____,____(d)____AFTER DATE, UPON SURRENDER OF
(NOT LESS THAN 30 DAYS)

THIS CERTIFICATE, WITH INTEREST AT____(e)____% PER ANNUM. NO PAYMENT BEFORE, AND NO INTEREST AFTER, MATURITY. SUBJECT TO PRESENT AND FUTURE LAWS OF THIS STATE AND OF CONGRESS AND TO REGULATIONS OF STATE AND FEDERAL AUTHORITIES.

____
CASHIER

3

FIRST NATIONAL BANK (a)
NEGOTIABLE CERTIFICATE OF DEPOSIT PAYABLE ON WRITTEN NOTICE

No.____ $____

____(b)____ ____193__

____HAS DEPOSITED IN THIS BANK

____DOLLARS

PAYABLE TO____(c)____OWN ORDER NOT LESS THAN____(g)____DAYS AFTER WRITTEN NOTICE TO THE
(MINIMUM 30 DAYS)

BANK, UPON SURRENDER OF THIS CERTIFICATE, PROPERLY INDORSED. IF CERTIFICATE OUTSTANDING____MONTHS, INTEREST AT____(e)____% PER ANNUM. NO PAYMENT BEFORE, AND NO INTEREST AFTER, EXPIRATION OF NOTICE. SUBJECT TO PRESENT AND FUTURE LAWS OF THIS STATE AND OF CONGRESS AND TO REGULATIONS OF STATE AND FEDERAL AUTHORITIES. BANK MAY ALTER INTEREST RATE OR CALL CERTIFICATE, WHICH WILL STOP INTEREST, UPON____(h)____DAYS' WRITTEN NOTICE TO THE INDORSEE, IF IT HAS WRITTEN NOTICE OF INDORSEMENT, OR OTHERWISE TO THE PAYEE, WHICH NOTICE MAY BE SENT TO THE ADDRESS ON THE BOOKS OF THE BANK

____
CASHIER

NOTICE OF REPAYMENT GIVEN____, 193__, EFFECTIVE____, 193__

3A

FIRST NATIONAL BANK (a)
NONNEGOTIABLE CERTIFICATE OF DEPOSIT PAYABLE ON WRITTEN NOTICE

No.____ $____

____(b)____ ____193__

____HAS DEPOSITED IN THIS BANK

____DOLLARS

PAYABLE TO____(f)____OR____(c)____ASSIGNS, NOT LESS THAN____(g)____DAYS AFTER
(MINIMUM 30 DAYS)

WRITTEN NOTICE TO THE BANK, UPON SURRENDER OF THIS CERTIFICATE IF CERTIFICATE OUTSTANDING____MONTHS, INTEREST AT____(e)____% PER ANNUM. NO PAYMENT BEFORE, AND NO INTEREST AFTER, EXPIRATION OF NOTICE SUBJECT TO PRESENT AND FUTURE LAWS OF THIS STATE AND OF CONGRESS AND TO REGULATIONS OF STATE AND FEDERAL AUTHORITIES

BANK MAY ALTER INTEREST RATE OR CALL CERTIFICATE, WHICH WILL STOP INTEREST, UPON____(h)____DAYS WRITTEN NOTICE TO THE ASSIGNEE, IF IT HAS WRITTEN NOTICE OF AN ASSIGNMENT, OR OTHERWISE TO THE PAYEE, WHICH NOTICE MAY BE SENT TO THE ADDRESS ON THE BOOKS OF THE BANK

____
CASHIER

NOTICE OF REPAYMENT GIVEN____193__, EFFECTIVE____193__

4

FIRST NATIONAL BANK (a)
JOINT CERTIFICATE OF DEPOSIT

No.____ $____

____(b)____ ____193__

____AND____,

AS JOINT TENANTS WITH RIGHT OF SURVIVORSHIP, HAVE DEPOSITED IN THIS BANK

____DOLLARS

PAYABLE TO THE ORDER OF EITHER OR THE SURVIVOR____(i)____193__, UPON SURRENDER OF THIS
(NOT LESS THAN 30 DAYS FROM DATE)

CERTIFICATE, PROPERLY INDORSED, WITH INTEREST AT____(e)____% PER ANNUM NO PAYMENT BEFORE, AND NO INTEREST AFTER, MATURITY SUBJECT TO PRESENT AND FUTURE LAWS OF THIS STATE AND OF CONGRESS AND TO REGULATIONS OF STATE AND FEDERAL AUTHORITIES

____
CASHIER

FIRST NATIONAL BANK

NOTICE OF REPAYMENT OF CERTIFICATE OF DEPOSIT

No ______ $______

DATE REPAYABLE ______ 193__ ______, ______ 193__

PAYEE ______

I HEREBY NOTIFY THE ______ BANK THAT I SHALL REQUIRE REPAYMENT OF THE CERTIFICATE OF DEPOSIT DESCRIBED ABOVE ON THE DATE SPECIFIED (WHICH DATE SHALL BE NOT LESS THAN 30 DAYS AFTER THE BANK RECEIVES NOTICE).

______
(SIGNATURE OF HOLDER)

ASSIGNMENT

NO ASSIGNMENT WILL AFFECT THE ISSUING BANK UNTIL WRITTEN NOTICE SIGNED BY THE PURCHASER HAS BEEN RECEIVED BY IT

I ASSIGN, WITHOUT RECOURSE, THIS CERTIFICATE

TO ______

______
(NAME OF PURCHASER.)

Above is a form to be used in connection with Certificate of Deposit Forms 3 and 3A. At the left is the back of each form of non-negotiable certificate, that is, 1A, 2A, and 3A

Savings Passbook Rules

What form of passbook rules will comply with Regulation Q of the Federal Reserve Board is a problem facing all members of the Federal Reserve System who carry savings accounts. It is impossible to draft a uniform or standard set of passbook rules. The form may vary according to the state and according to the type of bank, whether national or state, whether stock or mutual, whether member or non-member of the Federal Reserve System, and whether participant or non-participant in the Federal guaranty system.

The set of rules quoted here was drafted to comply with Regulation Q. Each bank may modify the rules to suit its own circumstances.

SUGGESTED FORM OF SAVINGS PASSBOOK RULES DRAFTED TO COMPLY WITH REGULATION Q OF THE FEDERAL RESERVE BOARD

1. An account may be opened with a deposit of $1.00 or more. Subsequent deposits may be made of like amount. Each account is limited to $7,500, exclusive of interest.

2. This account is subject to present and future laws of this State and of Congress and to regulations of State and Federal authorities.

3. When the bank in good faith, after notice, decides that funds other than those accumulated for bona fide thrift purposes have been deposited, all interest on the entire account, accruing subsequent to such deposit, shall be forfeited and the deposit shall be required to be withdrawn.

4. In receiving items for deposit in a savings account, this bank acts only as depositor's collecting agent and assumes no responsibility beyond the exercise of due care. All items are credited subject to final payment in cash or solvent credits. This bank will not be liable for default or negligence of its duly selected correspondents nor for losses in transit, and each correspondent so selected shall not be liable except for its own negligence. This bank or its correspondents may send items, directly or indirectly, to any bank including the payor, and accept its draft or credit as conditional payment in lieu of cash; it may charge back any item at any time before final payment, whether returned or not, also any item drawn on a checking account in this bank not good at close of business on day deposited.

5. A withdrawal can be made only upon presentation of the passbook and a withdrawal order signed by the depositor. Where the signature purports to be that of a depositor, a payment in good faith and with due care is binding on the depositor. A duplicate passbook will be issued only upon satisfactory proof of the loss or destruction of the original. The depositor shall give immediate notice of the loss or destruction.

6. No assignment of all or any part of a savings account shall bind the bank until receipt of written notice signed by the depositor.

7. The bank may at any time by posting notice in its lobby require written notice of not more than 60 days before withdrawal. The amount specified in the depositor's notice will not draw interest after the expiration of such notice until his further written notice that the amount will not be withdrawn pursuant to such notice or that such amount is again subject to these rules.

8. Deposits of $5.00 or more, remaining undisturbed for 30 days, draw interest from date of deposit to the first day of the month in which withdrawals are made, at ——% per annum, compounded semi-annually on the first day of January and July.

9. Any agreement freezing or scaling deposits or providing for a reorganization of the bank, approved in writing by the owners of two-thirds of the savings deposits in the bank is binding on all savings depositors.

Note: State banks in states with satisfactory law and national banks will omit this rule.

10. The bank may change the interest rate on funds in this account by giving 30 days' notice to its depositors. ——days' notice to a depositor of any other change in these rules shall be given by mail or otherwise. A notice may be sent to the last address given in writing to the bank by a depositor.

(CONTINUED ON PAGE 44)

Events and Information—Legal Notes, Continued

FEDERAL RESERVE REGULATIONS AND RULINGS

Regulation L, "Interlocking bank directorates and other relationships under the Clayton Act", makes the interlocking more difficult and deals with interlocking personnel between national banks and corporations and partnerships making loans on stock and bond collateral.

Regulation R, "Relationships with dealers in securities", defines "correspondent bank" and "correspondent dealer" and regulates the issuance of permits.

The Federal Reserve Bulletin for December contains rulings of great importance to banks relating to payment of interest by member banks on deposits of postal savings funds, directors of Reserve members who are stock exchange members or members or employees of stock exchange firms or associated with such firms, national bank directors who are directors of corporations making stock loans to their employees, banks controlled by the same corporations as affiliates of each other, withdrawals of savings deposits and provisions for time C/D's.

BANK DEPOSIT OF TRUST FUNDS

The right of a fiduciary to make a temporary deposit of trust funds does not justify his failure to invest them by keeping them on deposit longer than is reasonably necessary.

Tucker v. Newcomb, 67 Fed. (2) 177.

Cooperation with CWA

PRESIDENT ROOSEVELT'S request of November 22 for the cooperation of banks in cashing the thousands of checks for C.W.A. employees met with a speedy and favorable response, the full facilities of the banks being immediately devoted to the purpose of making the needed money available to workers.

The magnitude of the operation, running in the case of one bank to more than 8,000 transactions in one day, involved practical problems which were the subject of an interchange of telegrams on December 5 and 8 between the American Bankers Association and Acting Secretary of the Treasury Morgenthau.

IDENTIFICATIONS

THE problem of identification was ironed out in these wires by the issuance of instructions to supply all employees with identification cards bearing signatures or marks with two witnesses in cases of illiteracy. The law prohibited the issuance of checks payable to bearer.

To avoid congestion in bank lobbies and the possibility of loss of confidence therefrom, the Acting Secretary adopted the Association's suggestion for stagger payments wherever possible.

Because of the burden of the Federal Reserve banks in connection with the Government's emergency program, it was not considered feasible to have the cashing of these checks handled through them.

In concluding his telegram, Mr. Morgenthau said, "I appreciate the wholehearted cooperation of the banks in this matter, since it is vitally important that this program be successful and that the unemployed be given work which will enable them to provide the necessities of life during the coming winter months."

NRA Manual

A MANUAL for regional bankers N.R.A. committees under the Bankers Code of Fair Competition has been completed and placed in distribution by the Banking Code Committee of the American Bankers Association.

Trust Conference

THE fifteenth annual mid-winter trust conference of the Trust Division, American Bankers Association, will be held February 13, 14 and 15, 1934, at the Hotel Waldorf-Astoria, New York City. The annual banquet which brings the conference to a close will be held on the evening of Thursday, February 15.

This annual three-day meeting, which brings together representatives of the leading trust companies and banks in all parts of the country, is expected to be of unusual importance this year, according to H. O. Edmonds, President of the Trust Division and vice-president of the Northern Trust Company Bank, Chicago. He pointed out that in addition to the many problems that have arisen under present-day conditions there is to be considered the vital question of currency stability in relation to the administration of estates in trust.

Eastern Savings Conference

THE annual eastern savings conference, sponsored by the Savings Division, American Bankers Association, will be held at the Waldorf-Astoria Hotel, New York City, Thursday and Friday, January 25 and 26, 1934. On the evening of January 25 the annual banquet will be held.

The theme selected for the conference is "Current Banking Problems". Insurance of bank deposits, real estate mortgages, municipal credit, methods of computing interest on savings accounts and manuals of fair banking practice under the N.R.A. will receive consideration at the conference.

Trust Companies Magazine

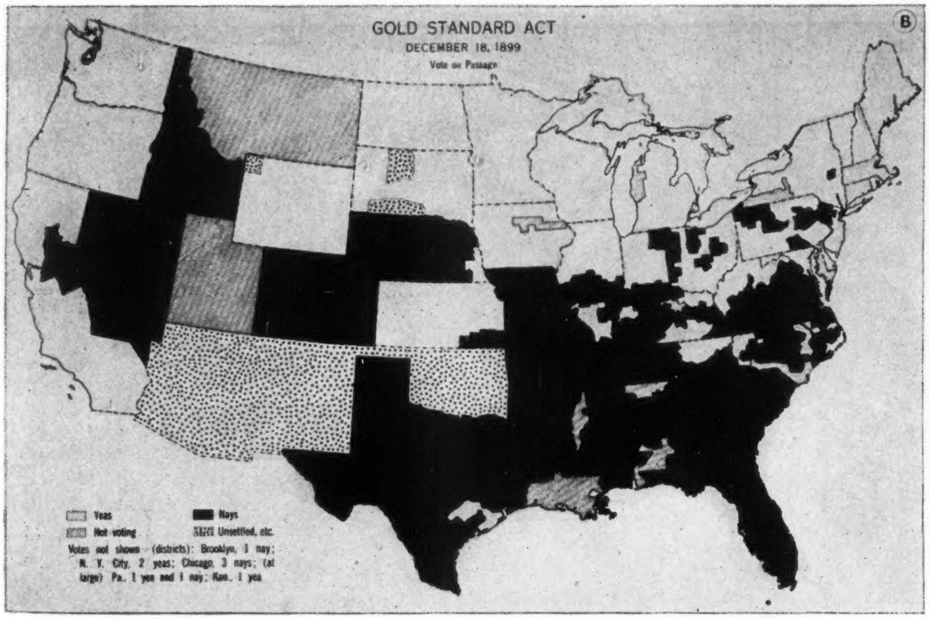
THE business of *Trust Companies Magazine*, published for many years by C. A. Luhnow, who died July 19, will be conducted hereafter by a corporation, now in process of formation, all the stock of which will be owned by the Luhnow Estate. Glen B. Winship has been selected as editorial and business director, effective December 1, and Christian C. Luhnow, son of the founder, has been designated as editor. Mr. Winship, until recently a consultant on industrial and financial problems, has had long experience in the public relations field and as a financial editor.

New State Secretaries Board of Control

THE new officers and Board of Control of the State Secretaries Section, American Bankers Association, selected at the Chicago convention, are as follows: President, J. W. Brislawn, secretary, Washington Bankers Association, Seattle, Washington; First Vice-President, George A. Starring, executive manager, South Dakota Bankers Association, Huron, S. D., and Second Vice-President, David M. Auch, secretary, Ohio Bankers Association, Columbus, Ohio.

The Board of Control consists of the foregoing with Paul P. Brown, secretary, North Carolina Bankers Association, Raleigh, North Carolina, and Andrew Miller, secretary, California Bankers Association, San Francisco, California. Frank W. Simmonds, Deputy Manager, American Bankers Association, New York, continues as Secretary of the Section.


RECORDAK
A Banker's Invention that Saves Money for Banks
PHOTOGRAPHY IN BANKING WITH RECORDAK
RECORDAK CORPORATION
positors
40%
Costs



A national picture of how the House first voted (190 to 150) on the Act "to define and fix the standard of value, to maintain the parity of all forms of money issued or coined by the United States, to refund the public debt, and for other purposes." Both Senate and House later approved the bill with amendments. President McKinley signed it March 14, 1900

Reproduced from C. O. Paullin's "Atlas of the Historical Geography of the United States, 1932", by courtesy of the American Geographical Society, and the Carnegie Institution of Washington, D. C.

Fantasy

(CONTINUED FROM PAGE 23)

Finally, to shorten the list of flaws in the social justice argument, for they are countless, it overlooks the fact that a great many loans now outstanding have been made on low price levels by the banks and others seeking to aid other persons to carry out their productive enterprises. These lenders are human beings and citizens also, and certainly are likewise entitled to social justice, but if the dollar is debased or prices are artificially raised, the money in which they will be repaid will be worth much less than the money which they advanced. Who is going to strike the scale of social justice as between the deserving debtor of the type who incurred his obligations on a high price level, and the meritorious lender who made his advances on a low price level?

If there is to be Government money manipulation, it is just as reasonable to demand that prices be kept down to insure that the lender shall receive back just as much as he gives, as that prices be raised so as to save the borrower from paying back more than he gets.

In fact, the greater number of persons would doubtless be benefited by the former than the latter, since wage earners, widows and orphans and beneficiaries of life insurance estates are on the creditor rather than on the debtor side of the economic equation that is involved. For once inflation starts, it carries the monetary price level far above that on which even the most deserving debtor incurred his obligation. Then all color of social justice disappears, for the depreciated currency not only enables the deserving debtor to give back much less than he received, but also reduces the purchasing power of wages to the vanishing point and wipes out the values of the bonds in which the estates of widows and orphans and the funds of insurance companies are invested.

VOTES

SO, although the inflationists, particularly of the political kind, make a great deal of the factor of social justice in their plans for manipulating the monetary mechanism, it would seem that they either fail to apprehend the full significance of this element or else are prejudiced or have only a partial view of the picture. The most vociferous advocates of inflation have always come from the particular farm districts where among their constituents are doubtless many debtor-farmers who are vulnerable to falling prices and believe that an unwarranted increase in the burden of their debts should be made easier for them through the channel of Government manipulation of the currency. Managed currency, especially in the hands of political managers, under such conditions may easily become an instrument for managing the currency in favor of what appears to be that section of the population controlling the greatest number of effective votes.

Monetary inflation would not restore confidence and would not create a revival of prices and business activity, if the experience of the world means anything. The only time at which the Government can really inflate by the greenback method is in connection with financing a war, or during the immediate aftermath of a war. Under these conditions virtually all the nation's economic activities are directed toward the war and needs of the Government, which becomes directly or indirectly the purchaser of the largest volume of the nation's supplies and the employer of the largest volume of its labor.

For a time the Government's credit is good and it can finance such a war by public loans, but finally there comes a period when public credit is exhausted and the nation has to have recourse to paying for its purchases by means of the printing press, that is, by issuing fiat money. This money, of course, drives out good money, and the value of fiat money goes down as public confidence in it decreases, that is, prices for goods and services rise. This means in turn that the Government has to issue more and more money and the time comes when the bubble simply blows up and the Government must repudiate its obligations.

CONTINUED | Herbert M. Bratter (Gold and Silver)
Gilbert T. Stephenson

The Protection of Uninvested Trust Funds

(CONTINUED FROM PAGE 24)

which the funds were taken shall have a lien for the amount of such funds on the bonds, other obligations, or securities so pledged or hypothecated, in addition to their claim against the estate of such bank and trust company."

South Carolina requires a deposit of bonds acceptable for the securing of public funds in South Carolina and equal in market value to the amount of trust funds so deposited.

Another group of states declared by statute or decision that uninvested trust funds deposited in the banking department are preferred claims.

For example, the statute of Delaware declares that when a bank or trust company shall be appointed executor or administrator, receiver or assignee or guardian or trustee either by will or by any written instrument or other act of the parties or by any court or official, such bank or trust company shall keep a separate account of money, securities or other property received, invested or loaned in the performance of its duties as such appointee and the same shall be deemed and held to be a special deposit and shall be held to be specially appropriated to the security and payment of such deposit and shall not be liable for the debts or obligations of the corporation.

The regulations of the Federal Reserve Board (Regulation F, Section B, III) require that funds in national banks awaiting investment or distribution shall be invested or distributed as soon as practicable and that they shall not be held uninvested any longer than is reasonably necessary. Such funds awaiting investment may be deposited in the commercial department or savings department of the bank to the credit of the trust department; provided that the bank first delivers to the trust department, as collateral security, (1) bonds, notes or certificates of indebtedness of the United States; or (2) other readily marketable securities of the class in which state trust companies or state banks exercising trust powers are authorized or permitted to invest trust funds under the laws of the state in which such banks are located; or (3) other readily marketable securities of the classes defined as "investment securities" in the revised statutes of the United States. The United States bonds or other securities so deposited as collateral shall be owned by the national bank and shall at all times be at least equal in market value to the amount of trust funds so deposited in the commercial department.

Gold and Silver on the Capitol Doorstep

(CONTINUED FROM PAGE 27)

certain apparent advantage to printing our new "inflation" money on silver, rather than paper. As between silver inflation and greenback inflation, the former is more likely to be limited in quantity. This is so, assuming that we embark upon a silver-purchase plan along the lines of the Bland-Allison Act, and not upon national bimetallism. But, if we are to turn to two-fold inflation by means of silver on the one hand, *and* paper notes on the other, the element of relative "safety" referred to above shrinks in proportion to the employment of the greenbacks.

Another point worth bearing in mind is this. Addition of silver to our currency stock does not necessarily mean a greater *total* amount of currency. The silver may simply replace other forms of money now in use. If it replaces Federal Reserve notes, for example, we would in reality be substituting inelastic for elastic currency, thus reversing the trend of recent years and running counter to the idea of a managed currency.

As to that more extreme form of silver inflation, bimetallism, it may be argued that on an international basis it will give a more stable reserve for the world's currencies. But international bimetallism would be, at present, very difficult, if not quite impossible, to bring about on a practical scale.

THE OFFICIAL FAMILY

President Roosevelt and his cabinet. Left to right, seated, are Secretary of War Dern, Secretary of State Hull, President Roosevelt, Secretary of the Treasury Woodin and Attorney General Cummings. From the left, standing, are Secretary of Agriculture Wallace, Secretary of the Interior Ickes, Secretary of the Navy Swanson, Postmaster General Farley, Secretary of Commerce Roper and Secretary of Labor Perkins

INTERNATIONAL

The Mistakes of Inflaters

(CONTINUED FROM PAGE 19)

a country embarks upon an unsound monetary policy in anticipation of inflation or devaluation, conditions are created which practically compel devaluation even though the gold supply is more than adequate to justify a return to the old par. Many prices and the foreign exchange rates adjust themselves to anticipated conditions, and if devaluation is anticipated, then failure to devaluate may cause a psychological reaction in the highly attuned and sensitive markets.

It is for these reasons that an unsound monetary policy can do irreparable damage. It is for this reason, also, that it is not easy to turn back or to "change the play" once a government finds it has made the wrong move. Finally, it is for this reason that sound money men find themselves more and more reluctant to advocate returning to the old par; they hesitate to face the possible psychological shock that may result; they believe that the damage has been done and that the best that we can do is to devaluate in some reasonable manner. It is the price we will pay for our current monetary follies. But this does not justify the original advocates of devaluation exclaiming with glee, as they are doing, that the sound money men are in agreement with their policies. When one sees his friend in an auto wreck, helps him right his battered car, and perhaps drives him home in it, our friend of the accident is hardly justified in assuming that we endorse battered cars. It is merely a case of removing the driver from the seat and driving the battered and twisted machine home for fear the driver may wreck it completely and endanger further the lives of the passengers.

7. There are no sound arguments for currency inflation. In addition to the falsity of the inflationist doctrine, as pointed out above, it must be understood that currency inflation never raised a country out of a depression and placed it on the road to sound recovery. It provides the most certain way known to impoverish the masses; it despoils those least able to bear its burdens; only the successful speculators and property holders have any opportunity to gain, and even they, in the end, may be carried down in the crash. In time, it stalls production and turns the nation into a den of gamblers. It makes a farce out of prudent living and saving. It is probably the most expensive and disastrous species of economic folly known.

Why is it that almost every generation seems to find it necessary to drag from the dump heap of economic fallacies the idea that there is some virtue in inflation, and attempt to dress it up in new clothes and thrust it upon the public as though it had some virtue? One of the highest accomplishments of human beings is found in their ability to preserve and to profit by the body of knowledge handed down by preceding generations; and when any generation forgets this important fact and presumes to toss to the winds the lessons so painfully and tediously learned by the intelligent people of preceding generations, it is courting disaster and attempting to turn the clock of progress backward.

8. The assumption that currency devaluation is desirable or sound as a means of raising prices is fallacious. It is an indirect tax upon the masses. It creates economic maladjustments and permanently changes foreign exchange pars. If a devaluation of 50 per cent is good, why is not a devaluation of 90 or 98 or even 100 per cent still better? Why not be logical and consistent about the matter and secure the full benefits of a thoroughgoing devaluation?

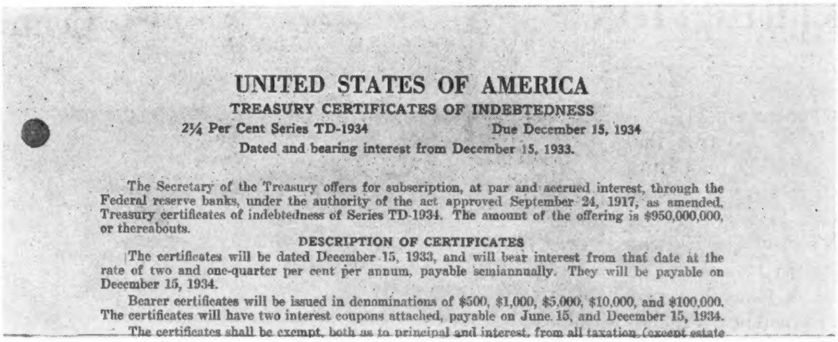
FALSE COMPARISONS

9. THE assumption that devaluation for the purpose of increasing the currency and raising the price level is of the same general nature, or has the same virtues or effects, as devaluation *after* inflation, in which an effort is made to obtain the benefits of a price level stability, is without any foundation in fact and merely reveals a confusion in thought. One sees almost daily this confusion of thinking in the attempts to compare our proposed devaluation with those cases of devaluation which followed inflation in Europe.

10. The proposal to raise the price level by means of inflation or devaluation to the so-called "debt level" rests upon unsound reasoning. It assumes that debtors and creditors can be separated into distinct classes, whereas practically all individuals, businesses, and governments are both debtors and creditors. It assumes that creditors also were not heavy losers in this depression. It assumes that creditors should, in some way, be held responsible for what happened. It assumes that what has been lost can in some way, never explained, be restored to the "rightful" owner. It assumes that the extra money will seek out the worthy debtors, climb into their pockets, and enable them to pay off their unworthy creditors. It assumes that that great group of

The Ox and the Frog

TWO little Frogs were playing about at the edge of a pool when an Ox came down to the water to drink, and by accident trod on one of them and crushed the life out of him. When the old Frog missed him, she asked his brother where he was. "He is dead, mother," said the little Frog; "an enormous big creature with four legs came to our pool this morning and trampled him down in the mud." "Enormous, was he? Was he as big as this?" said the Frog, puffing herself out to look as big as possible. "Oh! yes, much bigger," was the answer. The Frog puffed herself out still more. "Was he as big as this?" said she. "Oh! yes, yes, mother, MUCH bigger," said the little Frog. And yet again she puffed and puffed herself out till she was almost as round as a ball. "As big as . . . ?" she began—but then she burst.—AESOP'S FABLES



UNITED STATES OF AMERICA

TREASURY CERTIFICATES OF INDEBTEDNESS

2¼ Per Cent Series TD-1934 Due December 15, 1934

Dated and bearing interest from December 15, 1933.

The Secretary of the Treasury offers for subscription, at par and accrued interest, through the Federal reserve banks, under the authority of the act approved September 24, 1917, as amended, Treasury certificates of indebtedness of Series TD-1934. The amount of the offering is $950,000,000, or thereabouts.

DESCRIPTION OF CERTIFICATES

The certificates will be dated December 15, 1933, and will bear interest from that date at the rate of two and one-quarter per cent per annum, payable semiannually. They will be payable on December 15, 1934.

Bearer certificates will be issued in denominations of $500, $1,000, $5,000, $10,000, and $100,000. The certificates will have two interest coupons attached, payable on June 15, and December 15, 1934.

The certificates shall be exempt, both as to principal and interest, from all taxation (except estate

The latest offering of U. S. Treasury certificates was oversubscribed almost three times, according to Acting Secretary Morgenthau. This would indicate that the public is convinced of the Government's ability to maintain its credit

educational institutions, insurance companies, savings banks, trust funds and those who have placed their savings at the disposal of others to use should be penalized.

The advocates of this proposal fail to see that the only way to enable debtors to pay their creditors more easily is for the debtors to obtain increased employment, wages and salaries, and that the only way this can be assured is to do all things necessary to help producers increase their productive activities. These advocates fail to see that *both* creditors and debtors should be helped. And they fail to understand that even under the most favorable conditions of business recovery, when employment and wages are high, there will be no possibility that "justice" will be done. What has been lost is gone, and all that any individual, business or government can do is find new sources for additional income. Deflation has wrought havoc with the great mass of our people; but inflation would penalize them again. Inflation means additional disasters; and those who think otherwise are mere children in their thinking; they do not know financial and monetary history, and are simply idle and mistaken guessers.

11. Those who assume that the price level of 1926 is the one to which we should return, either because it is supposed to be the debt level or because it is the proper or ideal one, can provide no well established reasons whatever for such an assumption. There is nothing in economics that will support such an assumption. The only "ideal" or "proper" price level known in economics is the one which prevails when production and consumption are in a state of equilibrium. After a country has passed through a business recession and depression, there is no possible way of knowing in advance just when or where this equilibrium, and consequently the proper price level, will be attained.

CONTROL IMPOSSIBLE

12. INFLATIONISTS insist that they can control inflation. The rational reactions of human beings to inflation make control impossible. Any attempt to control leads to liquidation. For example, if the inflationists were to announce that they intend, by means of currency inflation, to raise prices to the 1926 level and then stabilize them there, sellers would hold back their goods and raise their selling prices until they reached the 1926 level, and then they would proceed to sell, for they would assume that prices would rise no higher and might fall. Buyers would purchase rapidly until prices reached the 1926 level, then they would restrict their purchases, for they would assume that the prices would rise no higher and might fall. The anxiety of sellers to sell, combined with the reluctance of buyers to buy, would precipitate a liquidation, and no government could stop it. The very nature of inflation is such that when an attempt is made to control it, prices collapse.

13. The present policy of gold purchasing by the Government rests upon the fallacious assumption that the price of gold or premium on it determines our domestic price level. During the days of our inconvertible greenbacks we had a *free* gold market in which all buyers and sellers of gold matched their judgments against each other as to what the future price level would be. The premium on gold was thus determined by these estimates as to what the price level would be and, therefore, bore a close relationship to it. But the premium did not determine the price level. Today our Government is assuming that the premium on gold determines the price level! A rarer monetary fallacy than this would be difficult to find.

14. There are no sound arguments for bimetallism. Those who advocate bimetallism must be classed among those who either are unacquainted with or deny the value of the lessons learned so well by preceding generations regarding bimetallism.

15. Those who advocate "doing something for silver" should be advised to turn back to the history of our experiences from 1890 to 1893 during which time our country reaped the disastrous consequences of attempting to do something for silver under the Bland-Allison and Sherman Silver Purchase Acts. President Cleveland's message to Congress, asking for the repeal of the latter act, would provide enlightening and profitable reading for those who wish to do something for silver. There is no more reason for attempting to do something for silver than there is for attempting to do something for a multitude of other commodities whose prices fell during the depression. The average annual value of the silver output in this country is less than that of the peanut, or soap flakes, or thread industries, and these industries have not been clamoring for special favors. The silver interests are, and always have been, astute lobbyists, and they have received so many favors in the past that they now think, apparently, that they are entitled to (CONTINUED ON PAGE 71)

RECONSTRUCTION — Central Control

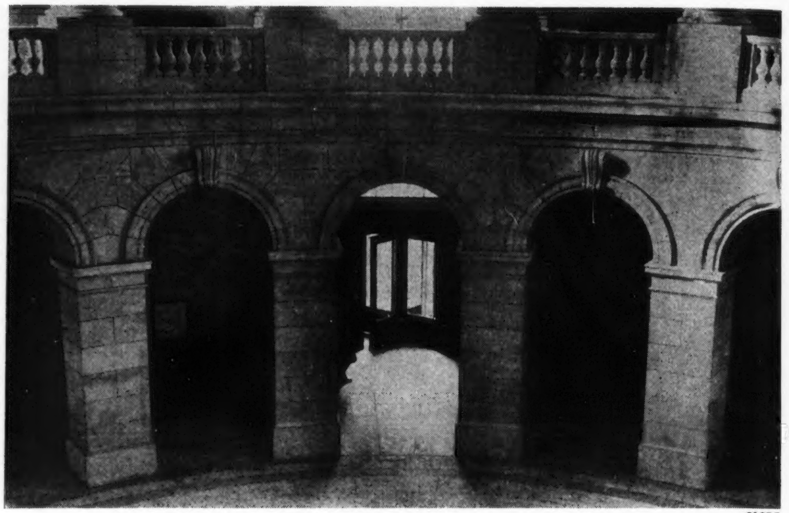
(CONTINUED FROM PAGE 14)
the theory. But it is also true that savings bank deposits do not turn over rapidly—even in a big depression like the present one. Savings ought to be cut off from the commercial banking business, not necessarily by insisting on a separate institution (though I personally believe that would be the soundest method) but in any event by arranging that savings bank money must go into savings bank investments.

Besides this, commercial banks have done an investment banking business, which they knew nothing about and have lost money at, and which is now cut off by one of the needed reforms which Senator Glass put through last spring. They did it through "affiliates" and through "bond departments" and other forms of salesmanship. It was not their business, and had no place in it.

And fourth, they did a true commercial banking business—taking in demand deposits, lending out money on security or on open note for short periods, to take care of the current mercantile needs of the country.

The trust business and the savings bank business perhaps require no further comment here. But the mingling of savings and commercial money does take a word.

There are, roughly speaking, enough commercial bank deposits to take care of the needs of the country. There are also, roughly speaking, enough savings bank deposits to take care of the legitimate demand for that kind of money. But there may not be enough commercial money in, let us say, some town in New Mexico, to take care of the needs of that town in any given season. Accordingly, the savings bank money is drawn on. Or there is a surplus of commercial bank money in the town and it goes, not into commercial loans, but into the bond market—which the local bank probably knows very little about, and in which it used largely to be influenced by the security affiliate of its correspondent bank in Chicago, or Denver, or San Francisco, or New York. The combination made for a very unstable equilibrium. The commercial depositor called for his money, and couldn't get it unless the bank could sell its bonds. Or, the bank was trying to pay a rate of interest on a savings bank account which it could not earn in the legitimate commercial field. There are other difficulties. Consequently, the job is so to work out a banking net, covering sufficiently large areas, that there will at all times be enough of each kind of money in the right place. If, for example, there were a single bank covering the whole United States, the problem would disappear, as it in fact largely does in the big branch banking systems which prevail in Canada, Australia and England. (CONTINUED ON PAGE 68)



GLOBE

Entrance of the House Office Building, Washington

RECONSTRUCTION — Individual Initiative

(CONTINUED FROM PAGE 16)
bidding for business by the making of unsafe loans, the payment of too high interest and the combination of banks and their affiliates of different kinds to cover up the results of speculative banking. There has also been an over-banked condition on account of national and state laxity in issuing bank charters and too low capitalization requirements.

The section of the Glass-Steagall bill doing away with the payment of interest on demand deposits was a step in the right direction, but its effect was almost completely nullified by a Federal Reserve regulation issued shortly after, allowing the payment of interest on short time deposits. Bankers should have learned from their experience of the past five years that volume of business is not the greatest thing to be desired.

Another thing that has had a direct bearing on safety in banking has been the partnerships that banks have set up with the Government in promoting one of their worst competitors, the Postal Savings. The payment of excessive interest on this fund, with the putting up of collateral, has made many banks print an untrue statement of their condition, misleading the public and the depositors in this respect. All bonds and securities put up as a guaranty of certain deposits should be separated from the rest of the bank's resources and the public told exactly what they are.

There is no question that the management of every commercial bank during the next few years, at least, is going to be very careful of expenses, or deficits will appear. Every good bank must maintain a highly liquid position, avoid capital loans and keep within limit the amount of deposits on which interest is paid. The only hope for thousands of banks is a strict adherence to the N.R.A. Code, which has been promulgated through the American Bankers Association and which will literally save hundreds of banks by its sections on fair competition and service charges.

Banking supervision should be taken entirely out of politics. This is equally true of the national department as it is of the different state banking departments. An effort should be made to have uniform banking laws in the different states, and the national banking laws certainly need a thorough revision. The supervising authority should have the power to remove inefficient officers and directors who are mismanaging a bank, and their other powers of supervision should be strengthened. The Comptroller of the Currency should not be appointed by the President, but should be selected by a non-partisan board of outstanding bankers, such as the advisory council of the Federal Reserve Board. The supervising authority, both national and state, should not be subject to confirmation by the United States Senate nor by the state senates. At least three-fourths of the mistakes and troubles of supervision have had their origin in political influence.

The guaranty of bank deposits, of course, means the guaranty of a bank's investments. Many well managed banks are operated during the present time with large excess reserves. The Government is putting out billions of dollars through numerous loan agencies of all kinds. Many loans that the Government is making can find a place in bank investments, provided there is a certain method of turning these investments into cash on demand. This suggestion may seem radical but not any more so than many of the other programs now being worked out. The Government could save very large amounts in personnel and at the same time take care of much of its financing of the individual and corporation through this established banking channel if loans were earmarked as they go into a bank, with the promise of the Government to take these loans without recourse at any time and pay the money, or whatever is accepted in the form of currency at the time. This would employ the banks' surplus funds, provide better (CONTINUED ON PAGE 69)

ANNUALLY

Every year state banking commissioners meet for the purpose of coordinating the efforts of individual states to safeguard and reinforce their respective state banking structures. Mr. Andrew is seated sixth from the left on this page

Trust Business and the Securities Act

THERE are a number of important respects in which the Federal Securities Act affects the trust business. With the cooperation of Paul V. Keyser, committee counsel for the Investment Bankers Association, and Arthur H. Dean, of Sullivan and Cromwell, Alfred V. Godsave, vice-president and trust officer of the Pacific National Bank, has analyzed the Act from the specialized trust viewpoint and developed the following facts.

A most important matter for trustees to consider is the effect of the law on their activities as sellers of securities. In this capacity, the trust department is not issuer, underwriter or dealer, but has a civil liability if it should sell either old or new securities other than domestic public securities by the use of the mails or an instrument of interstate commerce or by prospectus or oral communication, making during the sale an untrue statement of a material fact or omitting to state a material fact. The liability to the purchaser depends upon the ability of the seller to prove that he did not know, and could not have known, of such untruth or omission by the exercise of reasonable care. Absolute liability is withheld where the fiduciary standards of responsibility are adhered to.

When the trust department acts as transfer agent, registrar depositary and trustee under bond issues, the law has practically no effect other than that it may seriously diminish the volume of legitimate business of this type which would otherwise be available.

The theory of the law is to give the trust department, as purchaser of securities, added protection, but from the practical standpoint this value may be doubted, because the selection of trust investments is based on far more searching studies than the determination of mere registration or non-registration. However, there may conceivably be advantages in the added rights accorded buyers against issuers, directors, underwriters, etc., in any cases where the terms of the Act are violated.

The many securities now held in trust accounts constitute the first and major interest of trust officers, and, without the removal of some of the objectionable features of the Securities Act which will restore orderly refunding operations and reopen the regular channels through which capital flows, these holdings will inevitably be adversely affected.

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Other points made by Mr. Godsave in this connection are these:

A. The trust company asked to serve in the capacity of depositary, registrar or transfer agent must secure copies of the registration statement before agreeing to act.

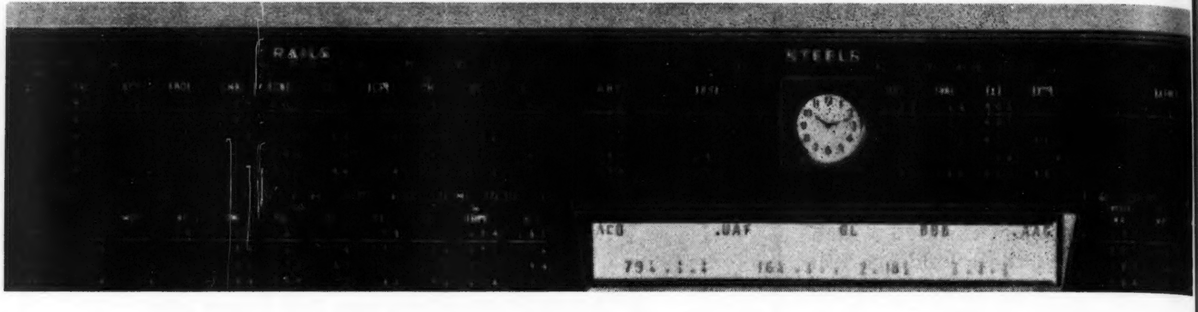
B. The sale of securities from one trust to another demands an investigation of the facts in sufficient detail to justify the sale, otherwise personal liability is assumed. It is preferable to buy and sell in the open market rather than to conduct the transaction as an inter-trust proposition.

C. The Act applies with equal force both on old and new securities, subdivision 2 of Section 12 specifically stating that no security is exempt, except United States, state and municipal bonds. If no representation is made, however, the Act does not apply, but it may be assumed that inter-bank transactions would imply representations.

In the event of a sale, the client should be given those facts and sources of information upon which the trust institution would base its own judgments. The trust department should centralize its circular and information services and keep careful records.

Since the Act is primarily aimed at transactions where the vendor is issuer, owner or broker, directly interested in the matter, recognition may be assumed of the completely different status of the trustee, whose only interest is the interest of his client.

D. So-called investment counsellors are immune to the effects of the Act on the ground that they are selling advice and opinions and not securities. This exemption, of course, would not hold if such counsellors receive any commissions on security transactions which follow as a result of their advice.



Inevitably, interference with normal capital financing by the Securities Act, by the general condition of the bond market, uncertainty as to the future of industry or otherwise, will result in the use of short term borrowing for long term purposes

Commercial Paper

(CONTINUED FROM PAGE 36)

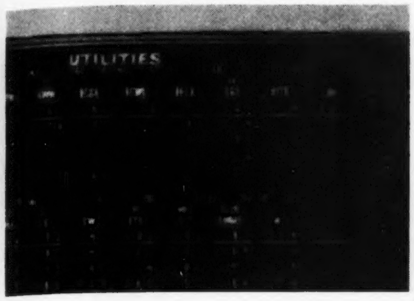
In 1928 and 1929, when the stock markets of the United States were ready to absorb almost anything in the way of corporate or other securities, large business concerns turned from commercial paper financing to stock and bond issues. Interest rates on commercial paper were comparatively high, at times running into the fantastic, and money at times was not to be had freely because of the drain of credit into speculation. On the other hand stock issues could be placed readily at high prices, and the high fixed interest charges on commercial paper could be replaced by dividends, depending upon the outcome of industrial and commercial operations. The speculative mania was taken advantage of not only for capital but also for operating funds.

Corporations and others in a position thus to secure funds not only obtained money to cover their seasonal needs which they had been accustomed to secure by short term loans but, when such funds were not so employed, they were in a position to place funds upon the market. A considerable portion of the "extra-bank" funds or "loans for account of others" was put into call loans during the speculative boom of 1929, not only furnishing the means of unbridled speculation but also acting as a constant stimulant in that direction. Securities thus issued were never required to meet the capital needs of the issuing corporations. Naturally they were never properly absorbed by investors and much of the distress in the securities markets during the depression has resulted from the presence of such undigested stocks and bonds which never should have been issued.

That the steady decrease in the volume of commercial paper outstanding was due altogether to a general decrease in short term financing through corporations obtaining working funds by long term stock market operations does not follow from the above figures, however, since this decrease was accompanied in a general way by an increase in the use of acceptances. This reached its height during and immediately after the stock market boom. The average of acceptances outstanding in 1925 was reported by the American Acceptance Council at $696,000,000. In 1926 the average fell to $691,000,000, but thereafter there was a steady and rapid increase until 1930. The volume in 1927 was $848,000,000; in 1928, $1,073,000,000; in 1929, $1,290,000,000; in 1930, $1,470,000,000; in 1931, $1,253,000,000; and in 1932, $784,000,000. During the current year the volume outstanding decreased from $707,000,000 in January to $704,000,000 in February, $671,000,000 in March, increasing to $697,000,000 in April, but falling to the lowest point, in May, at $669,000,000. There was an increase to $687,000,000 in June and $738,000,000 in July, a drop to $694,000,000 in August and an increase to $715,000,000 in September and $736,000,000 in October. Acceptances, accordingly, have not shown the same reaction as that shown by commercial paper. On the other hand the volume of acceptances has not fallen so low.

Much of the increase in commercial paper borrowing seems to have been for the purpose of enabling merchant concerns to stock up with goods against a possible rise in commodity prices

ANGELL



Section of a teleregister stock price board

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That the commercial paper method of borrowing has great possibilities in lines other than the financing of consumers' goods, moreover, is self-evident. Since acceptances generally involve the pledging of commodities and must, in their very nature, be more or less self-liquidating, the use of commercial paper seems to be the only alternative in transactions involving general credit.

The resumption of open market commercial paper financing, accordingly, presents some dangers as well as certain manifest advantages to bankers. The danger is that under the pressure for capital funds some, probably an increasing amount, of the new financing is likely to be for capital purposes, absorbing funds which should be available, primarily, for purely short term commercial and industrial purposes. The need of funds for capital operations and the presence of so great a volume of unemployed funds in the banks present a combination hard to resist in spite of the fact that such financing, though nominally short term, is in fact long term and likely to involve the banks in operations which in time may become embarrassing. There is danger that the pendulum which swung so far in favor of security issues in 1928 and 1929 may swing too far the other way.

On the other hand, an increased amount of liquid short term loans on the market, provided they can be kept liquid, cannot be otherwise than welcome to a great majority of the banks of the country anxious to employ idle funds, more or less forced upon them under the open market policy of the Reserve banks. Earnings upon open market paper at the present time are low, but in the absence of interest on demand deposits there is a margin of possible profit which the banks can use with benefit to themselves and to the communities they serve.

The Profit Motive

Important Books

THE *Economics of Recovery* by Leonard Ayres of Cleveland (Macmillan, New York) appeared at an opportune time. The daily press is filled with news about the efforts of the Administration to get us out of this depression. Many books are appearing on the subject of recovery. Opinion is sharply divided both as regards the causes for the depression and the means for restoring prosperity. The purpose of this book is stated by the author to be "an attempt to make a depression diagnosis." It "attempts to present an estimate of the situation with regard to the great depression as it affects the American people in the autumn of 1933." Two of the fundamental causes according to Colonel Ayres are (1) the great and irregular decline in price levels, and (2) the long drawn-out series of crises in credit.

Colonel Ayres deals with the subject in an interesting way and contends that "this is primarily a debt depression." He calls attention to the large increase in the debt structure, including corporate, real estate, national, state and miscellaneous debts, and concludes that these must be paid, if at all, out of profits. The banking crisis came as a result of a long period of financing capital goods including real estate as well as stocks and bonds out of commercial bank funds. Colonel Ayres says the provisions of the Banking Act of 1933 were well intended but inadequate to prevent such crises. He points to the fact that unemployment fell most heavily upon the class of workers who have been engaged in the production of *durable goods*. The author holds that the production of durable goods should be financed by private enterprise, and that the banking legislation has made this largely impossible by separating security affiliates from commercial banks and by the exacting provisions of the Securities Act.

Colonel Ayres does not accept the philosophy of the "new deal". The crux of the recovery campaign is found in *profits*. Those who are interested in a managed economy will reject the line of reasoning found in this book. The book is interesting and timely. It is encouraging to find practical bank officers proclaiming that we have had too much "mixing of commercial and investment banking" in this country during the past decade.

RESERVE BOARD

IN *The Federal Reserve Board* (Johns Hopkins Press, Baltimore), William O. Weyforth adds another contribution to the growing body of literature on the Federal Reserve System. As its subtitle suggests, this is a study of the Federal Reserve structure and credit control. The very essence of credit control is "that instead of the expansion or contraction of bank credit being left to the free play of individual enterprise among independent banks, it should be subjected to some conscious and purposive regulation; and to accomplish this there must be centralized authority with power to enforce its decisions." This centralized authority must logically rest with the Federal Reserve Board according to Mr. Weyforth. The book is limited to "an analysis (p. 35) of the division of authority within the system with respect to credit policy, that is, with respect to the control of the general expansion or contraction of credit and the determination of the usage to which it is to be put." The author regards the system of "checks and balances" followed in this country as ineffective.

The author discusses the origin of the idea of the Federal Reserve Board, the reasons why the Board's policy has been ineffective at times, the division of powers between the Board and the Reserve banks, the influence of the Treasury, the relation of the Board to open market operations and the position the Board should occupy relative to the rediscount policy and credit control in general if we are to have an effective central banking system. According to Mr. Weyforth, the framers of the Banking Act of 1933 recognized the unsatisfactory position of the Board and undertook to make it a more powerful organization in the operation of the System in the future. This was particularly indicated by provisions relating to international agreements or discussions with central bankers abroad. The Act gave definite legal status to Federal Open Market Committee but, in the mind of the author, it failed to define very clearly the powers of the Board in connection with the functioning of this Committee. Professor Weyforth sees no danger in a greater concentration of powers relative to credit control in the Board.

The Reserve Board

Prices

Credit Control

Business Cycles

Gold

Silver

Managed Currency

Laissez Faire

PRICES AND CYCLES

"INSTABILITY," says McCracken in *Value Theory and Business Cycles* (Falcon Press, New York), "is the price we pay for progress." He recognized that there are certain elements of uncertainty or unavoidable instability in a dynamic society and he feels definitely that the major difficulties we encounter in our economic life are due largely to three primary causes: (1) tariff, (2) war and (3) unstable money. These he regards as violations of basic economic principles by business interests and the Government.

Mr. McCracken has briefly and interestingly summarized the writings of several outstanding economists relative to their ideas and principles affecting the business cycles. This long list includes such well known names as Karl Marx, John Law, Robert Owen, Malthus, Ricardo, Irving Fisher and

John Maynard Keynes. The chapters covering the writings of John Law, Kellogg, Irving Fisher and John Maynard Keynes are highly entertaining. The schemes of Law and the discussion of greenbackism are very timely in view of some of the arguments being advanced today in favor of inflation and the issue of paper money.

In the last chapter, entitled, "America Goes Off the Gold Standard", are presented three fundamental and contributing causes for the overthrow of the gold standard: (1) a technical weakness in the gold standard; (2) an intolerable banking system and (3) liquidation that failed to liquidate. The author sees "little hope to be gained in the immediate future from *laissez-faire* and the inherent workings of automatic forces." A return to the gold standard should not be attempted "until the forces of liquidation have thoroughly spent themselves and business is definitely on the road to recovery." He appears to favor some type of managed currency though he does not indicate just what type should be adopted, except to say that "experiments now being made in the world with a managed currency may lead to a tabular standard of value superior to the gold standard."

It is difficult to accept the author's views that the issue of Federal Reserve Bank notes will prevent a further liquidation or forced sale of securities and other bank assets, or that such notes will always be secured by "sound collateral." The most interesting parts of the book are those which deal with the earlier writers on the subject. The writer himself, recognizing that bankers and business men might be interested in reading only those sections dealing primarily with money and monetary problems, suggested that they might "be able to read with profit, chapters V and VI on 'Lawism' together with chapters XIV and XV on Fisher and Keynes."

SILVER

THERE is an almost continuous stream of new books appearing on the market, many of which deal with banking and business subjects in a very stimulating way. Among those which are of current interest will be found several dealing with the silver question. There are many men in public life today who will recall the free silver (16:1) campaign of William Jennings Bryan in 1896. The articles and addresses of Senators Pitman of Nevada and Borah of Idaho have the "silvery tingle" of the oratorical outpourings in 1896 or of the days preceding the enactment of the Bland-Allison Act of 1878 and the Sherman Silver Purchase Act of 1890. The silver question has made its periodic appearance again as it has been accustomed to do during periods of depression. It was one of the important questions of the London Economic Conference, and the coinage of silver is being urged by many as the way out of the present depression.

Silver, An analysis of Factors Affecting Its Price by Y. S. Leong (Brookings Institution, Washington) deals with the demand for, the production of, and the price of silver. Mr. Leong does not anticipate an increased demand for silver in the near future. Its monetary use is largely restricted to subsidiary coinage. His general conclusion is that so far as the countries, including the United States, which neither hold or produce silver are concerned the policy should be one of *laissez-faire. Should We Turn to Silver?* by H. M. Bratter (University Press, Chicago) is the title of a very interesting pamphlet on the silver question. No definite conclusion is expressed but the obvious conclusion is that we should not turn to silver as a way out of this depression. These are timely discussions of a timely subject.

Among the other important books which have been received and many of which will be read with interest are the following: New York Banking Law Annotated 1933 by W. E. Baldwin; Qualitative Credit Control by W. E. Dunkman; Audacity! More Audacity! Always Audacity! by The United Action Campaign Committee; Study Guide to National Recovery by Harold Rugg and Marvin Krueger; Foundations for the World's New Age of Plenty by Fred Henderson; How to Do Publicity by Raymond C. Mayer; The Practical Application of Investment Management by Dwight C. Rose; Making the Most of Your Income by H. A. Blodgett; Distribution Today by O. Fred Rost; Financial Handbook—Second Edition—edited by R. H. Montgomery; Moneylending in Great Britain by D. J. Orchard and Geoffrey May; Foreign Bonds: An Autopsy by Dr. Max Winkler; Fiat Money Inflation in France by A. D. White; Economic Reconstruction Legislation of 1933 by National Industrial Conference Board, Inc.; Jordan on Investments—2nd Revised Edition—by David F. Jordan; Life Insurance Trusts by Guy B. Horton; Twenty Years of Federal Reserve Policy by S. E. Harris; The Future Comes by Charles A. Beard and G. H. E. Smith; The Sterling—Dollar—Franc—Tangle by Paul Einzig.

JOHN M. CHAPMAN
Professor of Banking,
Columbia University

NEWS

Below is the NRA Press Room in Washington. The first reports of swift developments in the New Deal usually come through newspapers. Then come magazines and books with a more accurate appraisal

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GLOBE

The New Era in Banking

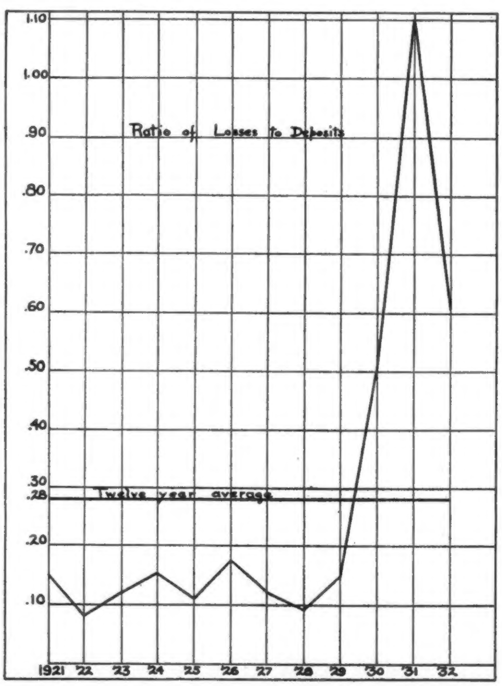
(CONTINUED FROM PAGE 12)

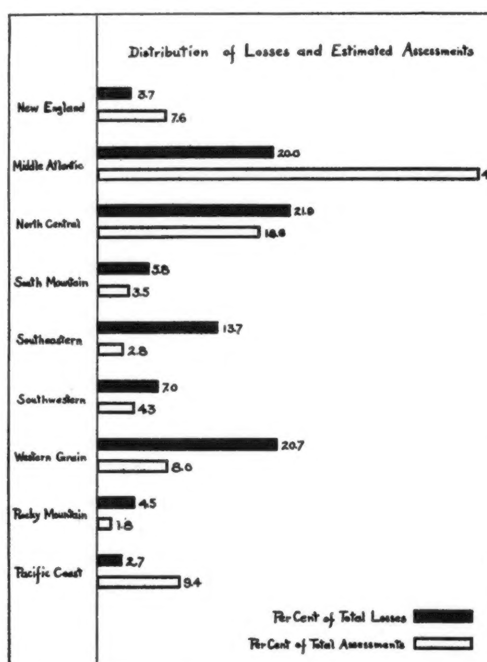
deposits covered by deposit insurance under the law will no longer be required, many banks also will find advantage in the release of such collateral.

By far the greater advantage to banks in the insurance system in relation to postal savings deposits, however, lies in the fact that, so long as deposits up to $2,500 are fully insured in commercial banks with perfect safety to depositors, there is no longer any reason for the Government to remain in the banking business. It is improbable, at least for the present, that Congress will abolish the postal savings system, as now proposed by various banking authorities, but it is quite probable that the mass of depositors in the postal savings system which have turned to the latter during recent banking troubles will return to the greater convenience of commercial banks. Over a billion dollars of the $1,180,000,000 of savings in the postal system at last accounts represents funds which normally would go into commercial banks. Under the deposit insurance system there is no reason why they should not do so, with vast benefits to the banks in net earnings and greater returns to depositors in interest on savings accounts.

On June 16, end of the year's limit after the passage of the Banking Act of 1933, the provisions of that Act in regard to security affiliates go into effect. That blow to many banks has been visibly eased during the past six months, if slow poison is better than sudden death, by the fact that the act regulating the issue of new securities has practically paralyzed the market for new capital and killed the business of security underwriting. It is promised that under Presidential urge the Securities Act will be modified by Congress so as to reduce personal liability of directors and underwriters of new issues for the purpose of stimulating new long term financing of the heavy industries, which cover about 60 per cent of all industrial activity in the country. However, so far as banks are concerned, the security business is a thing of the past. The banks not only can have no security affiliates but national banks also cannot deal in securities on their own account nor hold investment securities except in limited amounts and with the approval of the Comptroller of the Currency.

Gradually, also, in the course of the next few months much of the emergency banking legislation passed during the last two years will expire, placing the banks of the country upon the basis of permanent legislation. All banks, both member and non-member, will not be able to borrow so easily from the Federal Reserve banks, if they wish to do so. After March 3 the Reserve banks can no longer make advances on the time and demand notes of member banks secured otherwise than by eligible or acceptable paper. After March 24 advances to non-member banks by the Reserve banks will no longer be permitted. Congress may extend these privileges, but this is not likely, for the





JOURNAL CHARTS FROM J. P. HICKMAN, JR.

RATIO OF LOSSES TO DEPOSITS. The losses of depositors in all state and national banks which suspended during 1921–1932 are shown (chart at left) as a percentage of the total deposits of the active banks, and thus indicate the approximate losses which the guaranty fund would have sustained annually had it been in operation during that period. . . . DISTRIBUTION OF LOSSES AND ESTIMATED ASSESSMENTS. During the period, 1921–1931, the losses in suspended state and national banks which occurred in the various sections of the country are shown (chart at right) as a percentage of the total losses, and in like manner the percentage of the total assessment which would have been levied on these same sections to make good the deposit losses. The data is taken from a bulletin published by the Association of Reserve City Bankers.

Chairman Jones

"... banks face the new year owing the RFC five and a half times member bank rediscounts with the Reserve banks. If RFC subscriptions to preferred stock and capital notes and debentures and loans on such securities are included, the proportion is seven and a half times."—The Author

Governor Black

simple reason that they are not being used. Banks in need of funds under such circumstances usually go elsewhere. The R.F.C. beckons and the banks respond.

Year-end meetings of stockholders and bank management are witnessing more changes in the capital organization of banks than have taken place in, probably, any five years of banking history. The tremendous, spectacular rearrangement of capital set-ups by the great metropolitan banks are duplicated proportionately in smaller banks all over the country. The reorganization of many banks growing out of mergers following the banking holiday, the use of preferred stock underwritten by the Reconstruction Finance Corporation in bank reorganization preliminary to the inauguration of the deposit insurance system, and constant losses by many banks during the past three years or longer, resulting in impairment of surplus and reserves if not in capital itself, have made reorganization necessary or at least advisable, and banks generally are facing the situation with courage and good sense. What appears to be serious sacrifices are in fact mere recognition of facts as they exist. In many cases they are more apparent than real, since a writing down of capital results in building up reserves and surplus. In any event the process has greatly improved the position of individual banks and will operate to strengthen the banking business as a whole.

The banking business of the United States, in short, is passing out of the emergency stage into a period of new conditions arising from permanent legislation. It is to have new relations with the public under the deposit guaranty system. As has been indicated previously in these columns, it faces new supervision in a combination of the authority of the Federal Reserve Board and the Federal Deposit Insurance Corporation. Not the least important of these relations are those with the Reconstruction Finance Corporation. All of these relations involve new credit policies—credit granted and, more important perhaps, credit received. Whatever may be the credit relations with the Federal Reserve banks, which are supposed to be the fount of ultimate credit when once normal borrowing by the industrial and commercial public is renewed, the banks face the new year owing the R.F.C. approximately five and a half times member bank rediscounts with the Reserve banks. If R.F.C. subscriptions to preferred stock and capital notes and debentures and loans on such securities are included, the proportion is in the neighborhood of seven and a half times.

Such a state of things is neither normal in itself nor can it lead to normal commercial credit. On the other hand, member banks in the Reserve System have excess reserves of over $700,000,000 ready to lend under proper conditions. Presumably non-member banks are in the same position, all growing out of the bond buying, open market policy of the Reserve banks and a lack of demand for commercial credit. The banks of the country are in a position to lend enormous amounts, almost without limit, to commerce and industry as need arises and as conditions justify. In so far as they are not doing so it is because the actual need of commercial bank credit has not yet developed, and existing conditions do not justify much of such credit that is actually demanded.

General business conditions are responsible for this situation, and uncertainty as to future prices and values underlies most of the unfavorable business conditions. Part of this uncertainty is due to doubt as to the ultimate effect of the industrial code and farm aid programs, but most of it is due to the present monetary policy of the Government. So long as the future value of the dollar is in question there can be no certainty as to prices of either commodities or securities, and without such certainty credit must move only within a narrow range. Nevertheless, it should be pointed out that, while recessions in prices may be expected in the course of developing the present governmental policy, the tendency, both in keeping with inflation threats and the announced policy of the Government, is in the direction of higher prices except, perhaps, for bonds. The chief danger in the situation is that the dollar depressing campaign may fail and result in a price reaction.

The most serious phase of the monetary policy from a bank standpoint is its effect upon Government securities. It is inevitable that any movement which threatens (CONTINUED ON NEXT PAGE)

inflation should adversely affect the Government's obligations. Primarily this is due to the feeling that any reduction in the value of the dollar is a reduction in the value of all fixed obligations. Technically the result is a turn to "equities", stocks, property of all sorts, everything which may be expected to rise in price as the value of the dollar declines. So far the effect of the inflationist campaign has been chiefly in the hesitation shown to invest in long term securities of any sort, including Government long term obligations. Banks and investors of every class want their money where they can command it readily in case of emergency.

The banking structure is now stronger than it has been for many years. Banks are operating under a code which has eliminated many abuses in the business and promises a fair return upon banking operations. The country gives every indication that in spite of temporary set-backs and various foolish or doubtful policies its face is turned toward business recovery. It is adjusting itself to new plans and settling down under new conditions. Nearly all great trading nations show better business and improved prospects, which are certain to be reflected in our own. In any event the country is no longer following a policy of drift and *laissez faire*. It is on its way somewhere and it may well be toward restored prosperity.

Naturally this disposition affects the market for Government bonds, and to that extent affects the credit of the Government, as has been demonstrated by the questionable results of the refunding operations of the Government in the Fourth Liberty $4\frac{1}{4}$ per cent bonds, its inability to use long term financing to refund the sizable maturities of mid-December and the higher interest rate required to carry the issue of one year certificates to success. All things considered, the Government rightly considers itself fortunate that the December issue was so largely oversubscribed even at the $2\frac{1}{4}$ per cent rate. Much optimism, however, is scarcely justified by the event. Most of the obligations refunded were held by banks overflowing with money which they could not profitably employ otherwise. Reinvestment for a year was the logical way out of the situation. The significant fact in Government financing is that the December maturities could not be refunded into long term bonds, as the Government's financial position requires, and the refunding of the Fourth Liberty issue into new long term issues has not proved the success that was predicted.

It certainly does not follow, however, that such results of recent refinancing seriously impugn the credit of the Government in Washington. In spite of impending great increases in the public debt growing out of the recovery program, in spite of business uncertainty and monetary policies, the fact is that the wealth and resources of the United States are just as great as they ever were, the will and ability of the Government to meet its obligations is just as great and the ultimate and prompt payment of its obligations by the Government on maturity is just as certain as ever. With due allowance for the usual ups and downs of the money market from time to time, a Government obligation is just as good as the money it represents. In view of the large part Government obligations play in banking, this sound ultimate value of the former is to the latter a foundation of rock which neither threats of inflation nor inflation itself can shake. Possible difficulties are not with Government bonds but with the money they represent.

There is no occasion to magnify or minimize the dangers and difficulties faced by banks of the United States in the next few months. They are rather thoroughly understood and more or less discounted. Bankers are now face to face with realities, and the realities are far better than they were a year ago. The chief danger lies in inflation or threats of inflation, but bankers face no more loss or difficulties on this account than any other line of business, and actual dangers doubtless are less serious than they appear to be. In spite of constant threats there may be no inflation of the currency—at least none that will seriously affect ultimate values. Until the American people lose faith in their dollar, runaway currency inflation is difficult if not impossible, and so far the general public has maintained its faith.

SHAFER IN THE CINCINNATI TIMES-STAR

Another Noble Experiment

Changes in the Status of Gold

(CONTINUED FROM PAGE 25)

not import foreign gold and sell it to the Federal Reserve banks, provided the gold was imported after November 1, 1933. None the less, Federal Reserve Board officials were reported to have maintained that the Federal Reserve Bank of New York is without power to purchase gold at more than the statutory price of $20.67 provided in the Federal Reserve Act.

November 8

Gold Leaves France for U. S. A.

Paris dispatches reported private shipments of gold to the United States.

November 12

White House Conference; Thomas and Committee for the Nation Plan Silver Conference

A three-hour White House conference on monetary and financial matters, attended by a large group including Messrs. Woodin, Black, Warren and Rogers. Senator Thomas states printing press inflation is not needed, if adequate, soundly backed currency is provided, and that he and Senator Smith of South Carolina are calling a conference to be attended by various members of the Committee for the Nation and Senators Pittman, Wheeler, Borah, Harrison and Fletcher.

November 14

Gold Price Up

Price of gold lifted 11 cents to $33.56. Gold purchases abroad reported as totaling about $6,000,000.

November 15

Treasury Shake-up; Gold Price Halts Advance

Secretary Woodin goes on leave; Morgenthau made Acting Secretary of the Treasury; Dean Acheson quits as Undersecretary. Increase in gold price halted (and not resumed until November 20).

November 16

Judge Woolsey's Decision

In New York Federal Court Judge Woolsey rules in Campbell case that the Executive Order of August 28 directing gold hoarders to turn over their gold to the Federal Reserve banks was invalid because not issued by the Secretary of the Treasury. Judge Woolsey upholds constitutionality of the anti-hoarding act of March 9.

J. P. Morgan has tea at the White House.

November 18

Gold Buying in Paris Halts; U. S. Chamber of Commerce Asks for Sound Money

Paris newspaper report says U. S. gold buying there has practically ceased, being no longer necessary in the face of the new and heavy movement of capital.

U. S. Chamber of Commerce passes sound money resolution.

November 20

The Gold Program Resumed

Gold price lifted 10 cents by R.F.C., following a five-day halt. Jesse Jones reported as stating that to date 265,000 ounces of gold had been purchased at cost of $8,500,000. U. S. buying in Paris is resumed; over $1,000,000 worth reported bought.

November 21

Professor Sprague Resigns; Gold Goes Up

Resignation of Prof. O. M. W. Sprague, special Treasury adviser, made public. Professor Sprague voices strong opposition to Government's gold policy. Gold price raised 10 cents more to $33.76.

November 22

President Scores Critics

One month after inauguration of new gold policy, the President, speaking from Georgia, strikes at its foes. J. P. Warburg urges immediate abandonment of the gold policy. Another pause in lifting of gold price (which remains at $33.76 until November 28).

(CONTINUED ON NEXT PAGE)

Gold scrap is weighed and poured into a container for shipment

BANDY & HARMAN

November 23

Report on Anti-Hoarding Campaign

Attorney General announces return of gold under anti-hoarding campaign as totaling $39,329,973. Of this, $240,130 came in following initiating of prosecutions.

November 25

Governor Smith Opposes Monetary Program

Alfred E. Smith asks return to gold.

November 27

Legality of Gold Program: Con and Pro

Publication of memorandum written by Dean G. Acheson while Under-secretary of the Treasury, declaring manner of execution of the gold program illegal. Also published, a defense of the program by Stanley Reed, General Counsel of the R.F.C.

Chairman Jones of the R.F.C. quoted as maintaining the R.F.C. acquisition of gold to be entirely legal and to have been based upon opinion of Attorney General.

November 28

The Advance Is Resumed

After a week's standstill, gold price is raised by R.F.C. nine cents to $33.85.

November 29

Two Old Statutes on Gold Are Uncovered

Gold price raised eight cents more to $33.93. Two old U. S. statutes are revealed, one, dating from 1864, apparently authorizing Treasury to sell gold. A second, permitting Treasury to purchase gold coin at prices "most advantageous to public interest."

December 1

Gold Reaches a Plateau

The price of gold fixed by R.F.C. at $34.01, a price destined to be maintained for many days.

December 9

A "Leak" in the Gold Price?

Treasury reported investigating alleged "leak" in gold price, following rumor that daily price had become known in London several minutes before known in New York.

President confers with Professors Rogers and Warren.

December 10

Gold Price Leak Plugged

Associated Press in Washington states Treasury officials have devised new methods for publishing gold price, to avoid any advance leak of information.

Reported U. S. has approached Britain regarding exchange stabilization, but without success.

December 13

Still Seek Gold Leak; Cornell Group Against Gold Plan

Morgenthau terms gold leak a great mystery. Six Cornell professors publish statement urging abandonment of the gold policy. Senator Thomas reported exercised over reports of dollar stabilization negotiation.

December 18

Up Five Cents

The price is advanced to $34.06.

The Vehicle for Recovery Is Capital, Not Credit

(CONTINUED FROM PAGE 33)

movements is entirely natural, for the rise in bond prices results in a decline in bond yields and therefore facilitates the sale of securities to finance the long deferred needs of industry.

In view of the significance of new financing in stimulating business recovery, it is therefore important to consider the causes of the virtual collapse of the capital market at the present time. The question naturally arises, is this decline due to the inadequacy of the supply of new capital? Statistics on the amount of new capital are incomplete, and therefore it is impossible to calculate with any degree of accuracy the actual amount now seeking investment.

As mentioned before, capital is derived from the savings out of national income, and therefore the sharp contraction of the national income and the heavy losses on securities and real estate have reduced the total supply of available capital. Nevertheless it is a recognized economic fact that in a period of depression the force of saving continues strong, for in hard times we are inclined to restrict our spending and so, even though our income is smaller, net savings continue. Even in this severe depression savings have been considerable, as evidenced by the statistics of mutual savings banks and insurance companies. On the other hand, the demand for capital, notwithstanding the large amount of Government financing, has been relatively small as compared with previous years.

It would seem, therefore, that we must seek elsewhere for the causes checking the flow of capital. Unquestionably the Securities Act has tended to limit the volume of new financing, since responsible corporate officers and investment bankers are unwilling to assume the liabilities required under the new statute. It is interesting to note that the Securities Act aims primarily to prevent the issuing of fraudulent securities, but as a matter of fact the proportion of such securities to the total amount floated by investment bankers in the past has been relatively insignificant. In fact, the various Federal hearings on financial legislation, with only one exception, did not disclose conclusive proof of fraud in the case of any of the securities listed on the New York Stock Exchange.

A more serious factor which restricts the free flow of capital is the lack of public confidence in the monetary system. A decline in the value of money, resulting in a rise in the price level, brings direct loss to the holders of fixed-interest bearing obligations. These holders include the wage earner, the salaried man, the school teacher, the doctor and the minister who have refrained from spending their income and who have invested their funds directly in corporate or government securities. The bond-holding class also includes the holders of insurance policies or savings bank accounts, since these institutional funds are largely placed in fixed-interest bearing obligations. These persons represent the hard working, thrifty members of the community who prefer to forego the spending of their income in the present in order to make provision for the future needs of themselves or their dependents. The savings of this group constitute the foundation on which we must build our business recovery.

A Well Balanced Trust Account

HOW, under prevailing conditions, may a trust officer best attain the goal of a well balanced trust account, where full discretionary authority has been granted?

Many factors must be weighed in arriving at a solution of this problem. State laws, the importance of tax-exempt securities, the life of the trust, distribution dates, all must be given due consideration. But assuming that these factors exist only in the average degree of importance, vice-president A. H. Evans of the Continental Illinois National Bank and Trust Company has recently recommended the following as meeting the needs of a million dollar estate:

U. S. Government bonds of various maturities	10%
Municipal bonds	10%
Railroad bonds	20%
Public utility bonds	30%
Industrial bonds and/or preferred stocks	20%
Individual real estate mortgages	10%
	100%

Mr. Evans bases his schedule on the following facts:

U. S. Government bonds are still the premier investment, in spite of the inevitable expansion of the Federal debt. Invest partly in short term, partly in medium term and partly in long term issues.

While many municipalities are too heavily laden with debt and are faced by tax delinquencies, there are high grade investments available to the trustee in the municipal field, and such carefully selected securities still have a merit second only to Governments.

Railroad bonds have had a marked recovery in the past year, and while it may be objected that they are rarely paid except by reorganization, and that it is no longer possible to choose them merely by "name", the careful study of balance sheets, traffic density, competitive conditions and other basic factors will suggest several issues.

Public utility bonds afford a broad selection of excellent investments. While political conditions are unfavorable, rate structures are under attack and heavier taxation and operating charges may be anticipated, the earning records of many companies remain favorable. A new yardstick is suggested, however, for measuring intrinsic values. The number of times interest has been earned must be supplemented by a weighting of the amount of depreciation, and a consideration of the ratio of debt to gross revenues, two figures which are not subject to manipulation. The economic status of territories must not be neglected, nor the probable reaction of the population to schemes of public ownership.

The obligations of successful industrial corporations merit consideration, but involve important selective problems. Bonds of nearby companies make a closer watch possible, and the stability of earnings and recuperative powers of plants, as well as industries, require study.

Though real estate bonds have caused many a severe headache in trust departments in recent months, mortgages on individual homes have seldom shown ultimate losses when originally based on fair cash valuations, and business recovery is almost certain to result in a slow but steady increase in property values. It is, however, as necessary to evaluate the character, occupation and earning capacity of the mortgageor as the property itself.

Without Doubt, Proceed

(CONTINUED FROM PAGE 29)

the confidence to borrow, to venture, to work for his legitimate profit. Public confidence in banks is no longer an issue, and bankers should not allow their energies and attention to be diverted for a moment from the real problem of business improvement—the removal, or at least the minimizing, of the elements of uncertainty in the commercial and industrial picture.

The business or industrial executive venturing upon a new enterprise or an expanded activity today is confronted, first and foremost, with the N.R.A. He has no precedent for judging what its result is going to be in his particular field. Ultimately, the code in his industry may benefit him tremendously, but just now he can only guess at its probable effect. His lawyer may tell him, also, that there is some doubt as to how the things he plans to do may be construed under the code.

Then, too, if his sales field is among other industries and not among consumers, his problem is further complicated by the changes that may be brought about by the N.R.A. codes under which his prospective customers must operate. Will their modified status take them out of the market for the things he has to sell? Will it be necessary for him to develop entirely new markets?

The uncertainty of the labor situation creates another problem for him. He may be on excellent terms with his own employees and their unions. He may be living up to the labor provisions of his particular N.R.A. code to the letter. But suppose some competitor decides to "fight it out" with labor, and a strike follows throughout the industry. Although he may encounter no labor troubles himself, his prospective customers may be forced to halt operation because of labor disturbances in their respective industries. What will become of his investment in new machinery, new raw materials, advertising and selling effort?

But more important than the effects of codes is the puzzling monetary situation that confronts the business man. In addition to bank loans, or perhaps we ought to say *more* than bank loans, the average business today needs new capital. Where may it be obtained when investors, with the characteristic timidity of capital, hesitate not only to go into new ventures but even to invest their money in what have heretofore been going concerns? In this dilemma neither the business man, the investor, nor the banker can speak with any assurance of the future.

Faced with these doubts and uncertainties, is the business man to be criticized for hesitating? Is it any wonder he lacks confidence?

All his skill and experience count for nothing in the face of these new elements that have appeared so suddenly and unprecedentedly on the business scene. True, all of them may be working for his ultimate benefit, but at the moment he does not know just which direction the trend will take. And so he waits. He does not go to his bank to borrow the money for developing the business plans he has in mind, nor does he seek new capital to restore his losses.

Above all others, bankers themselves are in position to recognize the outstanding need of our program for recovery: renewed commercial confidence.

RECONSTRUCTION — Central Control

(Continued from page 52)

On this layout, the lines of the present controversy become tolerably plain. One group proposes as an answer the general establishment of branch banking throughout the country, with a view to building up just such big chains as have existed in Canada, England and elsewhere. These banks have stood, almost without exception, the strain of depressions, and in those countries bank failures are practically unknown. This group argues, and rightly, that by the establishment of big chains the problem of too many small banks is solved; likewise, that the distribution between savings money and commercial money is accomplished, because a surplus of commercial money in one place may be applied to a community where there is more savings bank money than is needed, but less commercial bank money; and so forth. There is a great deal to be said for this view, and many competent bankers advocate it.

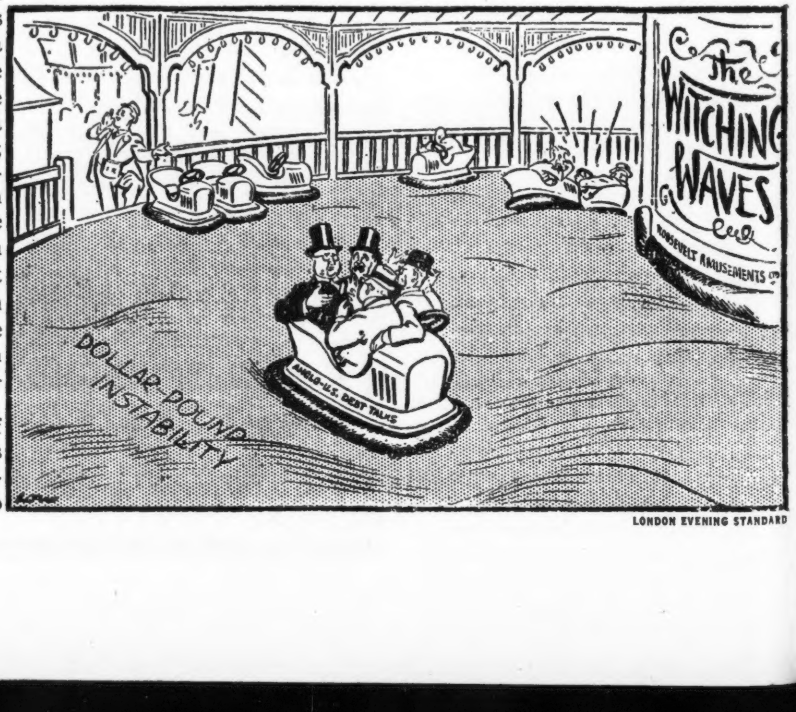
The difficulty with this lies in the fact, first, that America, just now, happens to be a little lacking in bankers who have demonstrated their capacity to handle chains of this size, though we do undoubtedly have some. One very distinguished banker said to me that while the principle was all right, it would have meant, in 1925 to 1929, a struggle between two or three big banks to discover which would be the biggest bank in the world for all time; and America has displayed a predilection at various times for size rather than for solvency. More than one banker has wrecked his career because he got slightly confused as to whether he was trying to be a first-rate banker or a second-rate Napoleon. It is possible that that lesson has been learned; we may wholeheartedly hope so. It is a time when almost anything is possible; but my feeling would be that the institution of a system of branch banking on a large scale, that is to say, on a scale comparable to that which exists in England and Canada, is at the moment not feasible, if for no better reason than that the country just now does not have confidence enough in any group of men to give it the power involved in controlling such banks.

A second solution, more in the line of political feasibility, is that which it is said Senator Glass favors. He is reported to wish to arrange matters so that every bank would be, within a reasonable period of time, in the Federal Reserve System. This may have been achieved by the conditions attached to deposit insurance (though this remains to be seen, and it is possible that the next Congress will attempt to take even that measure of safety out of the Glass-Steagall Act of 1933). Next, he has suggested some kind of regulation as to the size of banks, a requirement that in order to open a bank you have to show that the bank is big enough to take care of a reasonable district—that is to say, to balance up between the various kinds of money it has to handle—and to insure that it has adequate capital and deposits to earn its overhead without going into risky and uncertain schemes. Of the general soundness of both these suggestions there can be no question. He has already proposed and achieved the divorce of the affiliate; and that divorce is likely to remain, though some of the absurd results occasioned by the 1933 definition probably should be modified when the act is "tuned in"—that is, overhauled for drafting improvements, as important acts frequently are a session after their original passage. Segregation of savings from commercial accounts has not yet been tackled, and it is one of the jobs that will probably have to be worked out as bank reform goes forward.

Finally, some recognized and regulated status ought to be given to true "private banking"—the handling of large affairs for large clients. These could be provided for by permitting incorporation of "banques d'affaires", limited to certain types of business and assigned a definite place in the system.

The last phase of the subject has to do with the reform, not of banks, but of bankers. The Glass-Steagall Act of 1933 makes a beginning on that score; and the matter has been carried forward somewhat by Mr. Aldrich's recent statement on behalf of the Chase Bank. But one cannot read Mr. Aldrich's statement without a feeling of distinct unhappiness. Not that he was not right in the main, though his inclusion of private bankers was an incursion into a different type of business, which deserves a separate study. But it is a terrible commentary on American bankers to feel that it should be necessary to embody in a criminal code matters which ought to be of the very essence of instinct of the banker. For example, the attempt to prohibit loans by a bank to an officer of a corporation which is a large borrower of or depositor in the bank—that is, an unsound loan to somebody who can swing deposits towards the bank. One recognizes the danger, of course; but it ought to be bred in the bone of every banker that these things simply are not done; and it ought to be a disgrace to a business man to propose

ADRIFT



LONDON EVENING STANDARD

such a transaction. Further, a codification of this sort of ethics does tend to make banking unduly rigid.

Bankers should know those things without benefit of either lawyers or criminal statutes, and should handle them ethically and automatically in stride.

In this regard, two factors must be kept distinctly in mind. One is that there are a great many bankers throughout the country who are not only ethical but scrupulously so; and if they have not imposed their ethics on banking as a whole, they nevertheless are a quite adequate group with which to work. In the second place, there is a large body of younger men who have come up through the whole banking system, many of whom it is my privilege to know, and who have steadily, continuously and quietly worked towards a cleaning up of these individual excesses. Sometimes they have succeeded, sometimes not; but they are still young, and within the next few years their hour must inevitably strike. These men probably are the hope of the American banker (as distinguished from the banking system). There is, in a word, a substratum on which much can be built. In the field of ethics, law can do something, but not much. The ultimate reliance must necessarily be on men, and the objective of every bank and banker, whether unregulated or regulated, Governmental, branch or individual, ought to develop its men with a view to their essential soundness.

RECONSTRUCTION — Individual Initiative

(CONTINUED FROM PAGE 53)

earnings and do away with the ever increasing number of incompetent employees. If we are to have a Government-controlled and Government-operated banking system it should take over more of the Government's financial operations, good and bad.

It is apparent that a strong effort will be made at the next session of Congress to put through a law allowing branch banking by national banks, even in states that prohibit it by statute. Destruction of state rights by this method should be considered beyond the possibility of enactment, but it is going to take the united effort of all unit bankers, both national and state, to prevent the passage of such legislation. The main advantage claimed for branch banking by those on the inside is that it makes possible the transaction of larger bank operations with less capital. This argument should be considered as against public interest, and the tendency should be toward greater safety for deposits through larger capital structures, rather than smaller. The danger of stock manipulations in large branch banking groups is evident to all. The danger of an over-banked condition, which always makes for recklessness, is just as apt to be present in branch banking as in unit banking, and the results are the same. Branch banking within metropolitan areas or within adjoining counties may have some foundation, but branch banking cannot extend safely beyond the intimate credit information that the officers of banks may enjoy. It is a well demonstrated fact that the loaning of a bank's money cannot be safely delegated outside of the executive officers of the institution. It has also been quite fully demonstrated during the past few years that any institution with too many paying-teller windows is seriously handicapped in times of stress.

Finally, the state bankers of this country do not ask nor expect any advantage over the other types of institutions. For over 60 years there has been an unparalleled succession of prosperous years in the United States, with increasing industrial and agricultural development through the aid of a dual banking system, which has functioned so as to build a great nation faster and, we hope, more permanently than at any time before in the history of the world. A revolution in our banking structure is unnecessary and will result in disaster. Good management in banking cannot be built by legislation nor conducted exclusively under Government auspices. The unit state bank has not proved a failure. It has built up thousands of communities. The state banks of this country, numbering two-thirds of the total, deserve fair treatment, but it looks very much as if they have arrived at a place where they must demand it.

The efforts of the Administration to bring this country out of the depression are acknowledged to be almost a superhuman task. It needs must be a policy of building and not of destruction. The state bankers of this country are the common people back home. They are the backbone of the community life and furnish the lifeblood necessary for business operation. They are necessary in any plan of reconstruction and rebuilding. They have aided in the recovery progress day after day.

There is room in this country for both state and national banks. The Constitution of the United States provides for the rights of the states. The state banks are necessary as an integral part of a successful banking system.

The Condition of BANKING

(CONTINUED FROM PAGE 5)

secondary reserves with their New York City correspondents. Another factor which has reduced proportionately excess reserves in New York City banks, has been the policy of the Federal Government in raising its funds in New York City and spending them outside.

In general the out-of-town banks and the New York City banks have been following opposite policies as to their investments. While the interior banks have been increasing their holdings of both United States Government and of other bonds, the New York City banks have been reducing their investments. Reporting member banks of the Federal Reserve System, together with the Federal Reserve banks, alone hold over $7,500 million or about 30 per cent of the total outstanding debt of the United States. These figures show the considerable stake which the banks have in the maintenance of the credit of the Federal Government and in the stability of its securities.

While the ordinary budget of the Government is almost balanced, the extraordinary expenditures are heavy, and as a result the deficit which has accumulated almost weekly since the beginning of the fiscal year in July is very heavy. Additional expenditures will be needed for unemployment relief over the coming winter as well as for public works. These budgetary deficits and the large maturing obligations falling due in 1934 will force the Treasury to borrow in the open market almost continuously.

The bond market in December recovered some of the losses incurred in November. Throughout this period high grade securities have shown stability in the face of threatened inflation, which should normally have depressed their price. This stability arises largely from the small supply, which in turn has been eagerly sought by insurance companies and savings banks whose claims are payable in dollars and so are not affected by the force of inflation. The prices of United States Government bonds have not shared in the improvement in the general bond market, for there has been a close correlation between their prices and the price of gold as fixed by the Reconstruction Finance Corporation. It would seem that this relationship will continue in the future until the dollar is finally stabilized.

In the utility section of the bond market, well secured, first mortgage bonds of sound operating companies have been generally unaffected by the growing tide of Government power projects. On the other hand, this movement has adversely affected the obligations of holding companies. They have also been unfavorably influenced by the reduction of the net income of their subsidiary companies as a result of the lowering of rates and the increase of taxes. The Federal, state and city governments have all joined in levying higher taxes on public utilities, and as a result the proportion of their gross revenues applied to taxes has risen from 9.7 per cent in 1929 to about 14 per cent in 1933. It is therefore little wonder that both the utility companies and the investors in utility securities are objecting to the imposition of taxes on utilities for the purpose of providing funds for municipalities to build competing utility projects. All these adverse factors will render difficult the task of the public utilities in refinancing the large volume of issues which mature in 1934.

On the other hand, railway securities are reflecting the influence of more satisfactory factors. The attitude of the Government is friendly, and this session of Congress may enact favorable legislation such as the control over interstate trucking and over internal waterways, so as to enable the railroads to operate under conditions of more equitable competition. Unlike the utilities, the railroads do not face any serious refinancing difficulties in 1934. Their debt maturities are small and should be easily handled.

Industrial profits improved throughout 1933. The financial statements of 205 large corporations with net worth of $7,443,000,000 showed a deficit of $14 million in the first quarter, a profit of $86 million in the second quarter and $129 million in the third quarter, with every indication of satisfactory results in the closing quarter.

Increasing business activity and rising commodity prices have resulted in higher profits, and these forces should exercise a favorable influence on securities. The increase in business activity and the heavy demands of the Treasury are the leading forces making for somewhat higher money rates. Even more important than these forces in determining security prices in the coming months will be the monetary policy of the Government, and so it is well to look beyond the stage of currency depreciation to that of eventual currency stabilization.

Earle Bailie, formerly member of a New York banking firm, has been appointed Special Assistant to the Secretary of the Treasury for Fiscal Affairs. His appointment fills the place left by the resignation of Dean Acheson on November 15

GLOBE

The Mistakes of Inflaters

(CONTINUED FROM PAGE 51)

them. As to the argument that we should help the natives of India and China, the answer is that there is no reason why a country should impair its currency system in order to help a country that has failed to keep abreast of the times. To dilute our currency with silver is to weaken it, just as we did in 1878 to 1893. And if the argument is that there is great economy to be derived from the use of silver, the answer is that the way to obtain the full virtues of economy is to use paper money. There are no sound arguments to be advanced in behalf of "doing something for silver."

16. A few "experimenters" are advocating symmetalism—the coinage of gold and silver in the same coin—as a solution. In so far as I am able to determine, no country has experimented with symmetalism since about 400 B.C. Therefore, those who advocate it are merely guessing as to its virtues. When used prior to 400 B.C., the chief lesson learned was that it was very unsatisfactory. Foreign exchange problems under such a system are almost insolvable.

17. There are those today who advocate the commodity dollar plan of Professor Irving Fisher. The confusion in this issue is seen in the fact that the employment of such a plan after a state of economic equilibrium is reached, in order to maintain a stable price level, is something radically different from devaluating the dollar in order to force a rise in the price level. And here again we come back to the point that we have no scarcity of gold, and therefore devaluation is unnecessary and not at all the proper solution to our recovery problems. Furthermore, after a currency is devaluated in order to raise the price level, the next question would be whether the rising price level could be controlled and stabilized. And on this point we have only conjecture to guide us, for no modern nation has ever devaluated its currency in order to raise the price level, and no country has tried to stabilize its price level after inflation or after a forced rise in the price level by the use of the Fisher plan.

18. Much of the current monetary controversy hinges upon Professor Warren's monetary theories, which are supposedly a fundamental part of the present, and possibly of the future, monetary program of the Government. These theories are set forth in his and Pearson's book, "Prices," but the essence of their conclusions is found on pages 371 and 375. There they say unqualifiedly: (1) that it is very easy to raise the price level by an expansion of the currency; (2) that by adopting bimetallism or symmetalism it is possible to set any price level that is desired; (3) that by reducing the weight of gold in the dollar any desired price level can be established; (4) that if a compensated dollar plan were adopted any desired price level could be set and thereafter could be maintained at a substantially stable price level; (5) that the effect of rising prices is the same regardless of the cause; and (6) that when a country has an irredeemable paper currency it can have any price level it desires. Every one of these statements either is open to dispute or is absolutely untrue, and there is no evidence produced in the book, "Prices," even though saturated with statistical data, that will support these monetary conclusions of Professor Warren.

Recently

(CONTINUED FROM PAGE 9)

public debt by just that amount. The original capital of the Corporation was wiped out in that one order. Such also is the case with many of the so-called loans, subscriptions of capital and other advances made by the Corporation under congressional direction without any substantial hope of repayment. All this may be a convenient method of financing, but it should not be allowed to cover up the facts of the case.

Mollified

The distribution of bounties under the various acreage restriction plans of the Agricultural Adjustment Administration has been slower than anticipated, but the effect of such distribution when finally brought about has been significant. Farm relief agitation in the south visibly lessened as the cotton states became more content with payments from the processing taxes; farm strikes in the wheat belt withered away under the flow of checks from Washington; the corn belt is commencing to feel new blood in its arteries as corn and hog money is in sight. Merchants in the affected areas, also, have felt the stimulating impulse of new funds. There is another, the tax side, of the picture, however, which it may be just as well not to dwell upon at this time. All this will have been in vain if the farmers of the country do not take due heed of the fundamentals which Secretary Wallace of the Department of Agriculture is insisting upon.

*

Regularity

Reaction of the money market to recent Government financing indicates rather clearly that the market is affected less by volume than by method. So long as new financing and refinancing follow regular traditional methods the disposition of the market is to react favorably. Any departure from regularity such as financing by the sale of bonds directly to the Federal Reserve banks or by the issue of greenbacks, both possible under the Thomas amendment, would provoke a disastrous reaction. The average investor is willing to bet on the United States Government so long as it tries no short cuts in borrowing money.

*

Friendship

The Japanese Government is arming itself legally for a tariff war with most of the world, carefully excluding the United States from all proposals of retaliation and reprisals. This sounds like good will. The explanation is that one fourth of Japan's total exports is raw silk, of which the United States takes over 90 per cent and admits it free of duty.

*

Homecoming

One reason given by British authorities for reported unwillingness on their part to stabilize the value of the dollar and the pound is that any such agreement would result in the return to the United States of at least the major portion of American capital which has fled from the dollar to the pound. It is a rather good reason—from the British standpoint. Estimates of the amount of American capital which has sought refuge abroad run rather high but the amount is generally thought to be around a billion dollars, par value, of which $375,000,000 is in London. The drawing down of $375,000,000 from British money markets by American investors would not only affect British-American exchange relations most seriously, but would also seriously affect the London money market. All this

indicates the artificiality of monetary conditions in Europe with so much American money on hand, over which European markets really have no control. What appears to be a strong financial position in Great Britain and France may in fact be a very weak one.

Guaranty of Deposits

How Can This Threat to Sound Banking Be Met?

(Winning answer to the JOURNAL's September Question, submitted by Leo G. Titus, First Berkeley Branch, American Trust Company, Berkeley, California)

DIRECT agitation for the repeal of deposit insurance legislation only aggravates the threat.

The situation may be met by a three-point program.

First, as evidence of good faith, every effort should be made to give the insurance plan a fair trial.

Second, the banking system should be strengthened in every possible way; weak, undercapitalized and unprofitable banks should be eliminated; stricter regulation should be enforced; published statements should be in such form as to give more accurate pictures of banks' conditions; and at the same time the public should be informed through legitimate publicity that the standard of banking is being raised to a point where insurance is unnecessary.

The final step would be to show the public that bank depositors must in the final analysis pay the cost of bank insurance through the reduction of interest rates on deposits and the imposition of higher charges for bank services.

LACK of space prevents the JOURNAL from publishing in this issue the remaining answers for which awards were made in accordance with the conditions described on page 80 of the September issue. The names of the successful authors, in addition to the winner of the first award, are —

II. L. Douglas Meredith, Burlington, Vermont.

III. R. Chandler Davis, 201 Main Street, Gloucester, Massachusetts.

IV. Thomas H. Bott, Jr., Beverly Savings Bank, Beverly, Massachusetts.

V. G. H. Melvin, 654 Ash Street, Winnetka, Illinois.

VI. Charles F. Gausmann, Dillsboro State Bank, Dillsboro, Indiana.

VII. George A. Haven, First State Bank of Chatfield, Chatfield, Minnesota.

THE JOURNAL acknowledges with great appreciation the interest shown by thousands of subscribers in answering the Forum questions.

Without exception, regardless of whether they received awards or not, these answers have been excellent.

All answers have been kept in the JOURNAL's files. Any author who wishes to have a manuscript returned should send in his request to that effect before February 1.

Reserve Bank Credit

The Odyssey of Augustus Van Winkle

THE idea of borrowing $50,000 from the Federal Reserve Bank of New York came to Mr. Augustus Van Winkle suddenly, after he had applied to nine of the commercial banks and had been turned down unanimously. He had been walking past the central bank's imposing building on Liberty Street, feeling rather low, as a man does when rejected for credit nine times, when he suddenly recalled having read somewhere that, by virtue of special legislation enacted in 1932, Federal Reserve banks could and would lend money directly to individuals under exceptional and exigent circumstances.

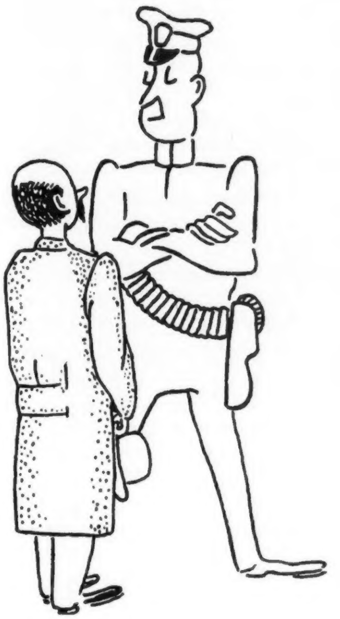
Mr. Van Winkle had never been in the Federal Reserve Bank, but he knew in general that it was a bank which did business only with banks and, as fiscal agent, with the Treasury of the United States. Going in and asking for $50,000, Mr. Van Winkle imagined, would be difficult—like talking to a Cabot who ordinarily talked only to Lowells, or to a Lowell who normally conversed only with God. Or, if he didn't feel that way, maybe the Federal Reserve Bank would. Still, Mr. Van Winkle needed the $50,000; the circumstances were admittedly exceptional and, undeniably, exigent.

He was in the incubator business which for two years had not been so hot, to quote the favorite but tiresome pun which had become a fixture in the incubator trade. Mr. Van Winkle owned and presided over the Interstate Incubator Co., which was almost on its last legs. The company had used up its cash and had impaired its capital and its financial statement, which Mr. Van Winkle had exhibited to the nine banks, plainly showed the state of its affairs. Though the company owed little money, none of it to banks, no bank would lend to it or to Mr. Van Winkle. To make matters worse, the small bank which had held the company's few dollars had folded up during the bank holiday and hadn't, for some obscure reason, been able to unfold after the banking vacation. Mr. Van Winkle had felt pretty hopeless until, only yesterday, a western farm supply concern had sent him a $50,000 order, specifying 90 days delivery and conditioned only upon Mr. Van Winkle's financing it. Since he had done business before with the western concern he had thought the financing would be easy, but the banks he had called on looked at the whole deal rather coldly.

The first bank he visited had been kind, but had told him he needed capital, not credit. This was no news to Mr. Van Winkle, who had no way of getting capital other than earning it, and to earn it he evidently had to have it first, which was confusing. The second bank he called on listened sympathetically to his story of the first turndown but said they didn't see how they could help; his balance sheet was too unsatisfactory. Bank No. 3 said Mr. Van Winkle's financial condition was terrible (he admitted it) and suggested pulling the legs of some friends for the needed cash. Mr. Van Winkle could think of only two friends, both of whom had bankrupted themselves. Each bank he visited wanted to know to whom he had been previously for money and, as the list of banks which rejected his application grew, so did Mr. Van Winkle's story of failure. His perigrination began to take on the appearance of an Odyssey of No Progress. At Bank No. 4 Mr. Van Winkle was shown an advertisement entitled "The individual as a borrower: What the conservative commercial bank expects of him." The bank's expectations of Mr. Van Winkle were promptly disappointed, as were those of the five other banks to which he went subsequently. Mr. Van Winkle made a mental note to get up a card telling what a conservative borrower expects of a bank and send it to Bank No. 4 with flowers attached.

As he walked a little uneasily through the iron portal of the Federal Reserve Bank he was at once mistaken for a gold hoarder belatedly returning his spoils. He explained irritably that he was there to take money out, not to put it in. The bank guard scratched his ear in puzzlement until Mr. Van Winkle said baldly that he wanted to borrow $50,000. "Oh," said the guard, "tenth floor." A truck drove up to the bank and discharged half a ton of currency with a military escort, as Mr. Van Winkle got into the elevator with a bank messenger who held in one hand a few checks neatly listed on a deposit slip. The

Direct to Individuals



total of the deposit, Mr. Van Winkle noticed, was $20,689,501.16. He began to think that his own $50,000 request was pretty modest. When he got to the tenth floor, a place of beauty and grandeur, he felt quite apologetic and ashamed, as though he were about to ask Mr. J. P. Morgan for the loan of a dollar. A polite attendant asked him his mission. "I want to borrow $50,000," said Mr. Van Winkle. The attendant bowed and ushered him into a large bright office where an officer of the bank greeted him cordially and invited him to sit down and tell his story.

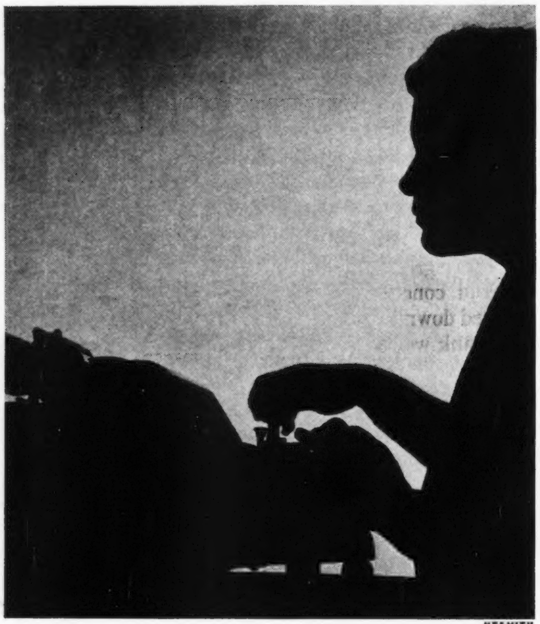
Mr. Van Winkle did so, copiously. The officer asked questions. Mr. Van Winkle wanted to discount a note of the Interstate Incubator Co. for $50,000 for 90 days? Very well. Purpose was to produce, purchase, carry and market goods in one or more of the processes of production, namely, incubator? Excellent. The money was for current business operations, would be helpful to trade and employment, and would not be used for speculative purposes or for capital investment? Good. Statement of the incubator company? Mr. Van Winkle produced it. "It's pretty poor," he explained. The officer smiled and asked about the security for the loan. "Incubators in process of manufacture, with my endorsement," said Mr. Van Winkle. The officer then said: "There is a most important question: can you swear (or affirm) that you have tried to obtain this money from commercial banks and failed to get it; if so why, and names of banks?" Mr. Van Winkle looked a bit dismayed; he hadn't known that was coming. Well, he thought, his goose was now cooked; better tell the whole story. He started to reel off the now voluminous account of the nine banks vs. Van Winkle but the Federal Reserve officer became restless and at length remarked: "Never mind; write 'em down." He passed Mr. Van Winkle a large application blank and told him to fill it out. There were 8 pages, 6 of which had to be filled. Mr. Van Winkle sat down at a vacant desk and stayed there two hours and twenty minutes, at the end of which time he handed in the completed application like a schoolboy filing an examination paper. The bank officer said it would receive the careful attention of the Federal Reserve Bank. Mr. Van Winkle went home feeling he had fanned an awful lot of air.

A week later he received, to his utter astonishment and delight, official announcement that his loan application had been granted; would he please come in and conclude the transaction? He rushed down to 33 Liberty Street before the bank was open and was again mistaken for a gold hoarder; it seems only they came to the bank before opening hours. Mr. Van Winkle was in high spirits and kidded the bank guards, who in consequence looked at him with some suspicion. People usually don't kid Federal Reserve bank guards.

When he walked out of the bank an hour later he carried a cashier's check of the Federal Reserve Bank for $49,250, the proceeds of the Interstate Incubator Co. note for $50,000 less interest at 6 per cent for 90 days. For several weeks his incubator factory hummed busily, cheerfully and prosperously. During this period Mr. Van Winkle's only petty annoyance was a deluge of letters, followed up by personal calls from new business representatives of the nine commercial banks which had refused to lend him money. They pleaded now for an opportunity to serve him and intimated quite openly that they were prepared to extend to him generous lines of credit. Mr. Van Winkle discovered that in some mysterious way the banks had learned that he was one of ten out of a thousand applicants who had actually received a direct loan from the Federal Reserve Bank.

—FET

Handling Equipment Charges



NESMITH

DO you allot a specific sum in your bank's budget to cover replacements and purchases of new equipment, or do you have other ways of anticipating and handling these charges? Most bankers, of course, believe in up-to-date machines and systems and other things that effect savings in operation, and most of them buy as needed and pay as they go. But the charges are handled in various ways, and depreciation schedules vary.

Regardless of the effects of the depression and regardless, too, of those new buildings that were completely equipped four or five years ago, machines and other devices succumb to the effects of wear and tear with use. They depreciate and must be replaced, and innovations are being introduced by the manufacturers—all of which, in addition to tax provisions, make depreciation allowances necessary. Five years is generally looked upon as the average life of equipment and some banks charge to depreciation approximately 20 per cent each year so that at the end of that period their equipment is paid for and replacement can be made. Other banks use varying rates. Desks, tables and chairs, for example, are depreciated at 10 per cent a year, while machine equipment goes at a faster rate, ranging from 20 to 25 per cent. Some banks, too, make a survey annually to determine what will be needed and to prevent an unusual amount of replacements in any one year. And not a few institutions keep the major portion of their equipment under maintenance contracts with the manufacturers or employ full-time maintenance men to look after the machines. But how are the charges themselves for these devices allocated on the books?

Larger banks in many instances budget these requirements. They set an amount based upon the actual expenditures of the previous year for this purpose, or upon the average over the last five years. When larger expenditures than expected were incurred during the previous year, the new figure may be reduced; or the anticipated installation of new systems may increase this figure. According to one bank, "we allot a specific sum for the purchase of specified items of new equipment in our annual budget. In our 1933 budget, prepared in 1932, we specified $5,000 and spent $10,000 due to unforeseen expansions. We are specifying $5,000 for general replacements in 1934 and are now considering the purchase of $35,000 worth of new machine equipment. This purchase is contingent upon the outcome of a study now being made as to its relative efficiency and economy of operation."

A reserve for new equipment and replacements is another method used to anticipate these requirements. Funds are transferred annually or monthly from undivided profits, and the amount may be fixed over a period of years or a bank may take "as a basis the approximate replacement cost of machine equipment, considering its normal life," and then set up a reserve of so much a year to cover replacements as required. In this way, at the expiration of the life of the equipment there will be in the reserve account the total amount of the replacement cost. Some institutions, too, do not allot a specific amount but try to anticipate requirements by accruing for items of this nature.

OTHER METHODS

BANKS that do not budget these items handle them in still other ways. Some institutions charge to an equipment account on the ledger and set up a regular depreciation against it yearly. One bank told the JOURNAL that it does not budget because "any new equipment purchased is not treated as an expense but is set up as an asset," although its budget does contain, of course, full allowance for depreciation of old equipment. And in another instance, "we charge it up to new equipment and write it off when we pay our dividends, though we do not necessarily write off at each time."

Failure to anticipate these expenditures requires meeting each situation as it occurs, and this is perhaps the most common practice. One method is to charge off the entire expense at the time of purchase or when paid, and to take it directly out of earnings or from the profit and loss account. A trust company, however, explained to the JOURNAL a slightly different procedure: "Five years ago we inaugurated a plan whereby we actually charge to our expense account $1,500 each quarter for equipment replacement. Our previous experience indicated that this amount could provide more than ample funds to keep all equipment up to date and in proper repair. This expectation has been realized, as we find that normal replacements require a somewhat smaller amount

than has been provided. We know of no other bank which handles this problem in a manner similar to ours, although our experience would justify its recommendation." And another bank, charging through the regular expense account, emphasized that "we make the deduction for depreciation of the maximum amount allowed under the income tax laws."

Still other institutions, making no appropriations, buy when needed and credit the furniture and fixtures account, charging off periodically. The expenditures are amortized either monthly, quarterly, semi-annually or annually when the books are closed. Usually the percentage of depreciation is based upon the estimated life of the equipment, five years in most instances, but some banks retire the amounts in shorter periods. One banker told the JOURNAL that "all of our equipment is written to nothing on our books, at which time it has been our policy to replace the equipment, using any trade-in allowance as a reduction in price of the new items purchased. Our depreciation schedule for the past few years has been running on an annual basis of $12,000. We find that this amount adequately covers reducing the capital value speedily enough so that all of our equipment lasts without replacement until it is entirely written off." Amounts under $100 may be charged direct to expense as in some instances, with depreciation included in the daily expense accrual and the percentage of depreciation based upon the estimated life of the equipment. And the furniture and fixtures account itself may be handled as still another bank explained: "For furniture, a reserve is set up to cover depreciation over a five-year period, monthly. For fixtures or leasehold improvements—life, to expiration of lease—a reserve is set up monthly to expiration of lease, when this reserve should equal the asset *Fixtures*."

Savings Operation

IN line with the times, mechanical equipment and systems that utilize machines have become commonplace in bank work, but improvements are being made at a rate that urges close attention to them if a savings bank is to keep abreast of the economies and other advantages offered. It wants to eliminate congestion during interest periods even during peak hours of the ordinary banking day. It wants to give privacy to transactions, deposits and withdrawals. It wants accuracy of entries and the avoidance of errors at the windows. It wants to speed up both the tellers' and the bookkeepers' operations. And it wants control methods that are adequate at all times.

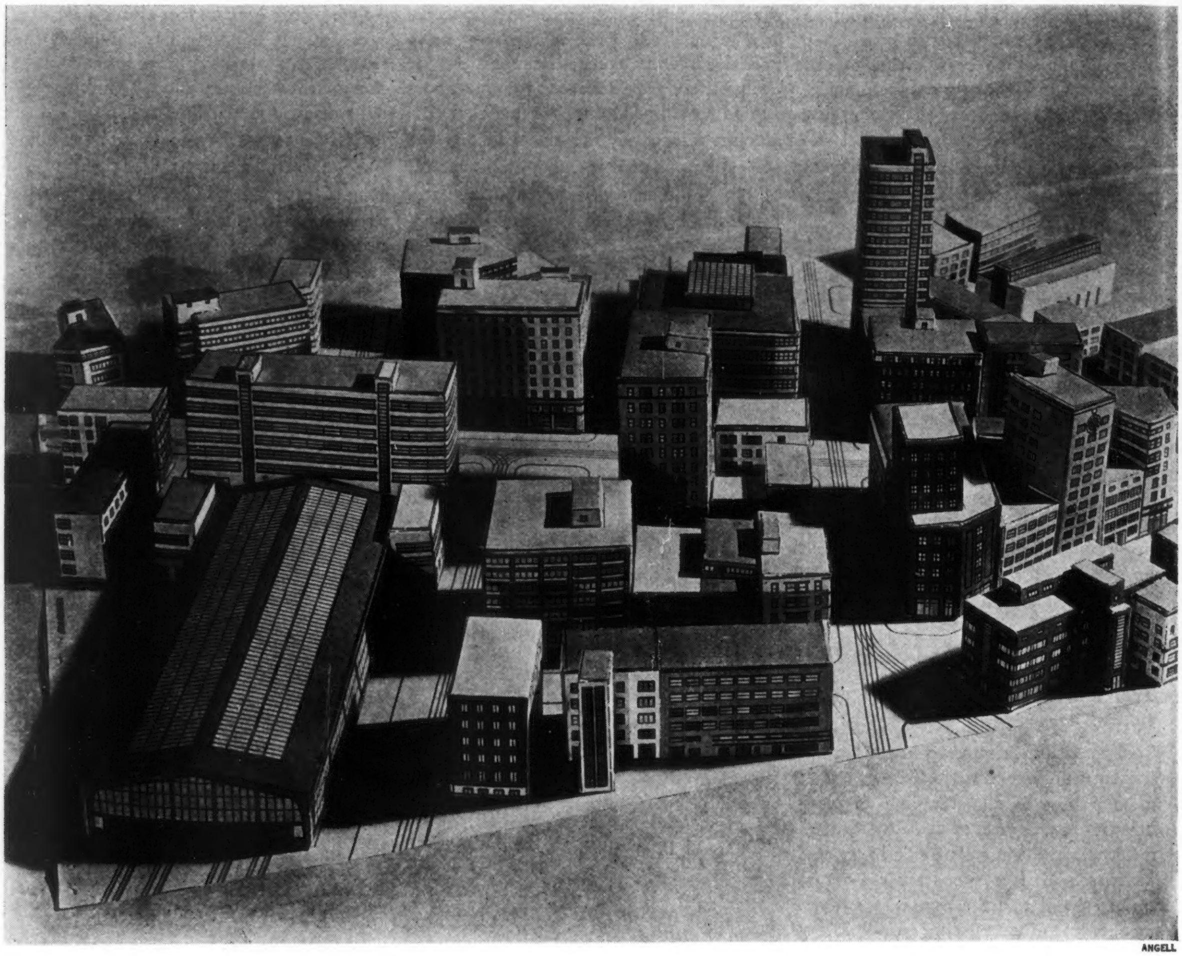
Economical operation can be had with these advantages, and mechanical devices and systems are now doing the work that formerly required larger staffs. This does not mean that bank employees have been added to the list of unemployed, because ways have been found to transfer them to other work, for relief duties, and to fill vacancies that ordinarily occur. New departments, for example, may create positions for those affected. One banker described the personnel handling, incident to a new installation, as follows, "During this time and following it, the problem worked itself out between the setting up of new service departments for depositors and the non-replacement of employees who were pensioned or who left. We set up information desks on the floor for customer contact. These desks were for consultation and advice on life insurance, mortgages, and other problems. We set up two desks in a new closed account department which saved us many accounts."

One of the best known systems for savings account handling has combined the ledger card, passbook and journal sheet posting into one operation, all with original entries. The machines are installed just inside the tellers' windows, and the complete operations are handled before customers leave the window. Printed entries avoid later confusion, and the multiple operation requires checking that avoids errors or detects them at the time of deposit or withdrawal. Locked totals for automatic accumulation of the amounts provides an additional check, and the machines are under control of the auditing department which holds the keys. Interest credits are entered automatically in red ink. There is key selection of columns on the passbook and ledger, and the date is printed automatically. Duplicate deposit slips can also be made and the entries later recorded in the passbook.

Another system is adaptable for use in either the unit or the dual plan of operation. It can handle the entire transaction before the customer leaves the window by posting passbook, ledger and journal all in one operation, or the passbook only is posted and journalized at the window with the ledger being posted and journalized later in the bookkeeping department. The latter plan, of course, enables peak loads to be handled by opening additional windows during rush.

Regenerating the American Working Man

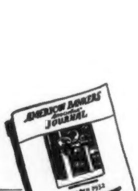
FITZPATRICK IN THE ST. LOUIS POST-DISPATCH



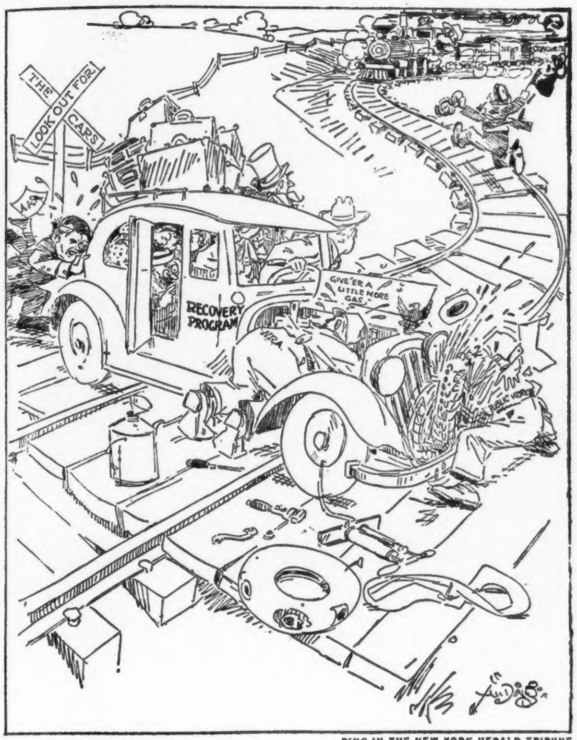
ANGELL

THIS city is made of paper and cost one dollar. In hundreds of cities and towns throughout the country, construction and modernization projects involving an eventual outlay of many millions are merely plans on paper. The same is true of projects for expansion of industrial units and transportation systems. They are awaiting the new year and better business conditions to be transformed into orders for lumber, paint, steel, refrigeration, sanitary and heating equipment, and scores of other products.

Readers of the AMERICAN BANKERS ASSOCIATION JOURNAL have a large interest in the profitable development of these plans, and the JOURNAL enters 1934 with an editorial program designed to serve this important group.



Hurry Boys! Here Comes Old Number 6



DING IN THE NEW YORK HERALD TRIBUNE

I'll Show You How To Run It

ORR IN THE CHICAGO TRIBUNE

CONVENTION CALENDAR (1934)

A. B. A. Meetings

Jan. 25–26 Annual Eastern Savings Conference, Waldorf-Astoria, New York, N. Y.
Feb. 13–15 Fifteenth Annual Midwinter Trust Conference, Waldorf-Astoria, New York, N. Y.
June 11–14 A. I. B. Convention, Washington, D. C.
Oct. 22–25 A. B. A. Convention, Washington, D. C.

State Associations

May 8–9 Oklahoma Bankers Association, Tulsa.
May 15–16 Missouri Bankers Association
June 18–20 Iowa Bankers Association
July 2–4 North Dakota Bankers Association & South Dakota Bankers Association (joint convention), Deadwood, S. D.

Other Financial

Jan. 18–19 New Jersey Midwinter Conference, Trenton
Jan. 19 New York Midwinter Conference, at Federal Reserve Bank of New York
Jan. 24 Savings Banks Association of the State of New York, Waldorf-Astoria, New York, N. Y.
May National Association of Mutual Savings Banks, Waldorf-Astoria, New York, N. Y.

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Start


ANGELL

FROM BRYAN AND McKINLEY TO 1934

This is the hourglass that was in the cook's galley of Admiral Dewey's flagship Olympia at the capture of Manila

ONE of the most widely read of all recent books is that called "Life Begins at Forty", by Walter B. Pitkin.

Regardless of age or circumstance, a new banking life begins with this year 1934, a life so altered and yet so surcharged with new opportunities that the stock-taking and resolutions customary at this season require thoughtful care.

At the beginning of 1933, banking was in the very center of the economic storm. Confidence in the future, not only of banking but of the country itself, was at its nadir. Panic stricken depositors in every part of the country were demanding their money. Government itself was in a state of temporary suspension because of changes in political control. Plans for the future were being made in terms of hours and days, rather than in years.

The outlook today is different. Confidence in banking is restored. The exigencies of the long term money market and increased costs of business operations have supplied a long-needed impetus to the commercial loan market. Thus there are substantial foundations upon which to chart the future.

In the satisfactory solution of grave, still unresolved questions confronting banking, too, exist very definite openings for fresh starts in new, untrod fields. There are great rewards awaiting those successful in developing sound co-operative measures to prevent the evils of recklessness inherent in the guaranty law; in the application of a broad, scientific technique to the complicated business of granting loans; in working out with industry and commerce new methods of balance between long and short term borrowing requirements; in making banking more than ever the vanguard of advance in the country's inevitable future expansion.

In comparison with conditions of even one year ago, this is a time for optimism in the future—optimism, however, tempered by the realization that disruptive forces are more active in the United States than ever before.

W. R. Morehouse, vice-president of the Security-First National Bank of Los Angeles, is the author of this Resolution for 1934. The JOURNAL recommends it to the attention of bankers everywhere:

I have resolved that in my contacts with my customers, whether I meet them in person, or serve them through their representatives, or transact their business by mail, I shall serve them in a manner which should convince them of a sincere desire on my part to be sympathetic to their banking needs, always to serve them gladly, promptly, patiently, courteously and efficiently, and in every transaction I will endeavor to inspire and retain their confidence in me and in my bank.

I am resolved to make 1934 the best year in my banking experience. In order to do this, I have resolved to compete with myself and improve on my 1933 record. Services which were creditably rendered by me during 1933 I will render in an even more acceptable manner during 1934. Services which were rendered by me below my par, I am resolved to bring up to my par in 1934.

I am resolved that I will not lose my patience with my customers, for the reason that most people do not intentionally excite my displeasure, nor will I argue with my customers, believing that it is the better part of wisdom for me to withhold unnecessary and antagonistic comment, as nothing of importance would be gained if I won all my points, while my customer's friendship for me and my bank is almost certain to receive a set-back whether I win or lose.

In conclusion, I have resolved that I will remain cool "under fire," for I can be at my best only when I am in full control of my feelings.